



**CULTURE AND INTERNATIONAL TRADE CREDIT RISK MANAGEMENT: A QUALITATIVE  
EXPLORATION OF CHINESE SMALL AND MEDIUM-SIZED ENTERPRISES**

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**DOCTOR OF PHILOSOPHY (BUSINESS)**

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**Declaration**

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis/project is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

**Jiang Zhou****18 December 2015**

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## **LIST OF ABBREVIATIONS**

GLOBE	Global Leadership and Organisational Behaviour Effectiveness
CQ	Cultural Intelligence
CR	Credit Risk
CRM	Credit Risk Management
ITCR	International Trade Credit Risk
ITCRM	International Trade Credit Risk Management
MNC	Multi-national Corporation
SME	Small and Medium-sized Enterprise
WVS	World Values Survey

# **ABSTRACT**

As businesses around the world increasingly source products from suppliers in emerging markets, a major challenge facing local suppliers is how to respond simultaneously to business complexities and to cultural clashes in daily interactions with foreign buyers from diverse countries.

Extant international business literature has explored the cultural adaptation experiences of expatriates, biculturals and multiculturals, who demonstrate the deviance of national cultures and intra-cultural variations. This study, in contrast, focuses on the cultural-shift experience of Chinese local suppliers (a category of local nationals) as a result of exposure to business complexities and foreign cultures in their international business transactions.

The research context, that is, the international trade credit risk (ITCR) situations faced by local suppliers in China, highlights the purpose of this research. Specifically, the experiences and circumstances of ITCR situations provide Chinese suppliers with 1) an opportunity to be exposed to new cultural repertoires and learn from them; 2) familiarity with cues and triggers that suggest they should select and enact particular repertoires; 3) an experience of crises and complexities which may motivate them to engage in the effort required to change their cultural values.

The research context is significant because ITCR has posed a prolonged problem in China. According to Chinese Ministry of Commerce, the bad debt rate in Chinese exports is generally higher than the world average, and many Chinese suppliers have experienced financial losses due to credit default from foreign buyers. Based on the higher than average rate of bad export debts in China, it would seem that the complex credit risk situations faced by Chinese suppliers is a significant issue worthy of immediate investigation.

The study is based on the concept of culture that differs from the cross-cultural comparative research, which has dominated international business-related cultural studies for several decades. This approach regards culture as a unitary, monolithic entity that is relatively static and stable; and assumes that in a society, there is a high consensus of cultural values which are widely shared and ‘chronically accessible’ by its members.

This study, in contrast, builds upon extant studies and assumes that culture is not completely shared in a society. Rather it suggests that culture is dynamically created, shared, internalised, and reproduced among inter-connected individuals, who may adopt different stances towards native cultural attributes contingent upon situations and processes that are differently cued and activated to influence values.

The aim of this study is to provide a thick contextualised description and explanation of the interplay between culture and international trade credit risk management (ITCRM) in the international business context.

The research adopts integrated, triangulated, multiple qualitative methods: focus groups, semi-structured interviews, field observation and document analysis. Informants include local suppliers of small to medium-sized enterprises (SMEs), e.g. executives and managers working in export-oriented Chinese SMEs, because the impact of culture on ITCRM is particularly relevant and significant in the case of SMEs, rather than big companies. A combination of sequential, theoretical and snowball sampling has been used. Data analysis was performed through an iterative, hermeneutical approach, which incorporates coding, categorising, reflective interpreting and tabulating qualitative data, and developing explanatory theories and frameworks.

Various cultural factors have been discovered to be associated with Chinese suppliers' ITCRM in international business, including: 1) Chinese native cultural values such as *guanxi* (interpersonal relationship), *renqing* (reciprocal obligation), *mianzi* (face), *baotuan* (solidarity and cooperation), harmony, and forbearance; 2) cultural practices such as disregard of contracts; 3) beliefs such as locus of control.

The analysis and explanation of this study suggests that even though culture continues to shape behaviour long after the originating circumstances have changed, the grip that culture has on adherents to its practices can sometimes be broken. The study reveals that there are six different cultural stances towards native cultural attributes that are taken by informants ('maintaining', 'reflecting', 'eroding', 'opposing', 'minimising' and 'switching'). Some suppliers (those with an opposing cultural stance) adapt their values and behaviours to new circumstances, in ways that run counter to the norms of native Chinese culture. There were other suppliers (with reflecting and

eroding cultural stances) who only partially adapt their values and behaviours; and some who do not appear to be adapting at all, and still maintain traditional values. Still others, those with a switching culture stance are able to switch among different cultural categories and act appropriately contingent upon the circumstance or situation.

This study further explores the reasons and causes which account for these variations of adaptation by suggesting a process model. The model allows us to gain a deeper understanding of the dynamic change in values of local suppliers when they are exposed to both foreign cultures and international business complexities. This model demonstrates that values change can occur either through an automatic cognitive process as a response to foreign cultural exposures; or through a conscious change process developed in response to complexities and crises arising from international business transactions.

This study also reveals that as a result of taking different cultural stances and values, local suppliers in China tend to demonstrate different practices and behaviours in their international trade credit decisions. These suppliers' trading styles have been categorised as 'conventional', 'bounded', 'stereotypical', 'conservative', 'rational' and 'pragmatic'.

Theoretically, this study contributes to a better understanding of intra-cultural variations. It establishes that the cultural category of local nationals may also be 'contaminated' as a result of exposure to the stimuli of foreign cultures and transaction complexities of international business; thereby their attributes may not be culturally interchangeable with the attributes of the pervading national culture. Moreover, this research also contributes to an understanding of the mechanism of change in cultural values. It highlights the importance of an external triggering event and individuals' motivations to drive changes in values, and reveals that the adaptability and direction of values change is contingent upon diverse factors.

This study also contributes to an understanding of credit risk management in the international business context. Practical implications and suggestions for international trade practitioners are discussed. Specific adaptation and ITCRM improvement strategies are also provided for each category of suppliers.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 INTRODUCTION**

This introductory chapter has been designed to provide an overview and roadmap of the thesis as a whole so at any point in their journey of reading, readers will know where they are in relation to the entire territory covered by the nine thesis chapters. The introduction begins by outlining the focus of the inquiry and then places that focus within the context of international trade credit risks in China. The primary research question is then presented along with four sub-questions. Each question is related to four important research gaps, a move which helps to illuminate the importance of each question. As a consequence, the research objectives flow logically from the research gaps and the research questions, and the objectives are then related to the overall research framework. Although Chapter Five provides a comprehensive account of the methodology employed in the thesis, this introduction nevertheless includes a preliminary account of the methodology to orientate the reader's expectations. The introduction then concludes with a summary of findings and contributions, and a summation of the structure of the thesis as a body of work. We move now to the focus of this thesis.

As businesses around the world increasingly source products from suppliers in emerging markets, a major challenge facing these suppliers is how to respond simultaneously to the complexities of international business as well as to the cultural clashes involved in daily interactions with foreign buyers from diverse countries.

Extant studies have already explored the cultural adaptation experiences of expatriates (Berry, 1988, 1997; Brannen, 2004), biculturals and multiculturalists (Hong, 2010; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Chiu & Hong, 2006; Lücke, Kostova & Roth, 2014; Brannen & Thomas, 2010), and host-country nationals working in multi-national corporations (MNCs) (Caprar, 2011) who demonstrate the deviance from national cultures as well as intra-cultural variations. This study, in contrast, focuses on the cultural-shift experience of Chinese suppliers (a category of Chinese local nationals), who would previously be regarded as mono-cultural individuals because they had no experience of living overseas. Because of their recent



international business experience, unique cultural relearning history and conscious motivation to change, this group may now also experience changes in the ways they are influenced by their common native culture.

Whereas previous studies have mainly explored the ‘outcomes’ of the experience of exposure to foreign or multiple cultures (Brannen & Salk, 2000; Brannen, 1994, 2009; Caprar, 2011; Lücke, Kostova & Roth, 2014; Hong & Chiu, 2001; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Chiu & Hong, 2006), this study focuses on the process mechanism of the cultural adaptation experience associated with responding both to foreign cultural exposure and to complexities and crises in international business.

In particular, this study contributes to the current literature by investigating the interplay between culture and international trade credit risk management (ITCRM) practices of Chinese suppliers in small and medium-sized enterprises (SMEs). Significantly, it is based on a conceptualisation, and basic assumptions about ‘culture’ which differ from a cross-cultural comparative approach.

In cross-cultural comparative research, a dominant approach in international business-related cultural studies for several decades, culture is identified as a unitary, monolithic entity that is relatively static and stable. This research approach assumes that in each society, there is a high level of consensus about widely shared cultural values which are ‘chronically accessible’ by its members.

This study, in contrast, builds upon contemporary studies and assumes that 1) culture is not entirely shared in a society, and that there are intra-cultural variations within a society or country where individuals may hold cultural stances that differ from national cultural attributes (Brannen & Salk, 2000; Brannen, 1994, 2009; Caprar, 2011; Faure & Fang, 2008); 2) culture and cultural values are not static, instead they are dynamically created, shared, internalised, and reproduced among interconnected individuals (Erez & Gati, 2004; Chiu & Hong, 2006; Bardi & Goodwin, 2011; Allen et al., 2007; Sheldon, 2005); 3) the influence of culture on individuals may not be coherent, consistent and chronically accessible, but contingent upon situations and processes that are differently cued and activated based on the availability, accessibility and applicability of cultural knowledge in a particular context (Hong & Chiu, 2001; Oyserman & Sorensen, 2009; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Morris & Gelfand, 2004).

## **1.2 RESEARCH CONTEXT: THE SIGNIFICANCE OF INTERNATIONAL TRADE CREDIT RISKS IN CHINA**

The research is conducted specifically in the context of international trade credit risk (ITCR) situations faced by Chinese suppliers. The experiences and circumstances of ITCR situations, provide Chinese suppliers with 1) an opportunity to be exposed to and learn new cultural repertoires; 2) cues and triggers from which they can select and enact particular repertoires; 3) crises and complexities which motivate them to engage in a conscious change in cultural values.

This research context is significant because the ITCR situation has long been a problem in China. According to the Chinese Ministry of Commerce, the rate of export bad debts in Chinese international trade is generally higher than the world average, with longer overdue periods and larger amounts overdue (Zheng & Liu, 2007). In 2005, the estimated rate of export bad debts in China was reported at around 5%, about 10 to 20 times higher than the average rate in developed countries, and 68% of export businesses had the experience of suffering financial losses due to credit default by importers (Shandong Department, Chinese Ministry of Commerce, 2005). By year 2008, the total accumulated export bad and overdue debts in China had already reached USD100 billion and these amounts had been increasing by roughly USD15 billion per year (Kuang, 2008). Notably, some studies showed that the ITCR rate above 50% was associated with overseas Chinese importers and over 60% were related to dishonest intentions (Kuang, 2008).

The 2008 global financial crisis aggravated the ITCR problem in China, especially for SMEs (Zhou & Hang, 2011). The estimated rate of ITCR in China doubled in 2008 (Feng, 2008), while in the US market alone, reported bad debts increased by 144% compared with the year 2007 (Gu, 2008). In Zhejiang, one of the most developed provinces in China in terms of export-oriented SMEs, there was a 58% increase in export bad debts. Once again in the US market alone, payments to nearly one thousand Zhejiang enterprises were defaulted on in 2008 (China Export Credit Insurance Corporation, 2008).

Based on the higher than average rate of bad export debts in China, it would seem that few if any formal credit risk management (CRM) strategies are being utilised. It is proposed that the underlying reason for this neglect is associated with an overreliance on traditional, culturally informed approaches to doing business—approaches that were functional in relation to domestic trade, but risk dysfunction in relation to international business. For example, a few real cases examined in an exploratory study for this research project demonstrated the relevance of culture and ITCRM in the Chinese context. During the 2008 financial crisis, some Chinese SMEs preferred to adopt a strategy based on ‘baotuan’ rather than purchase export credit insurance as protection (Zhou & Hang, 2011). Baotuan, an inherent Chinese cultural attribute, refers to cooperation and solidarity among members on personal relationship networks, for the purpose of forming alliances, sharing interests, and jointly resisting or controlling risks (Zhou & Hang, 2011). Under the principle of ‘baotuan’, SMEs cooperated with each other or were guided by larger companies, in order to collect bad debts from overseas customers (Zhou & Hang, 2011).

The research context also has significant implications because of the total export volume from China. Since 2009, China has become the world’s biggest merchandise exporter, and the world’s largest trading country (United Nations, 2014). In 2013, China’s exports reached USD2,209 billion, with a year-on-year growth of around 8%, and the total merchandise exports accounted for over 11.7% of world’s total exports (World Trade Organisation, 2014). If the previous estimate of around 5% bad debts in total Chinese exports still holds true, then the estimated bad debts for Chinese export industries in 2013 would reach approximately USD 110.5 billion. This is considered a large value worthy of immediate investigation from an ITCRM perspective. The findings from this research furnish researchers and practitioners with constructive insights into the cultural factors influencing ITCRM. Understanding of these factors may help determine ITCRM strategies that accord with local culture, as well as ultimately increasing the ITCRM capacity of Chinese suppliers.

### **1.3 RESEARCH QUESTIONS**

The aim of this study is to provide a thick contextualised description of the interplay between culture and ITCRM in the international business context, by focusing on the following questions:

**Primary research question:**

***In what ways do culture<sup>1</sup> and international trade credit risk management of local SME suppliers interact with each other<sup>2</sup> in China?***

In-depth answers to this fundamental research question are derived by using the following more concrete sub-questions:

- 1. How are different elements of cultural factors such as cultural values, practices, and beliefs associated with ITCRM of local SME suppliers in China?*
- 2. In what ways do ITCRM situations and experiences change the cultural values and practices of local SME suppliers in China?*
- 3. In what ways do these local suppliers in China reflect the attributes of the original national culture?*
- 4. How could a deep understanding of culture be used to encourage adaptation by Chinese suppliers, and thereby the adoption of more suitable ITCRM strategies in international business? What are possible strategies for encouraging and enabling the adaptation of Chinese suppliers?*

## **1.4 RESEARCH GAPS**

These specific research questions were designed not only to explore the interplay between culture and ITCRM practices, and the cultural adaptation experience of Chinese suppliers as a result of responding to both cultural clashes and business complexities, but also to address the research gaps described below.

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<sup>1</sup> This study uses ‘culture’ rather than other terms (e.g. national culture, cultural values) not only because of intensive debates around these terms as discussed in the following literature review, but also because the purpose of the research is to explore the interaction between different dimensions and layers of culture on ITCRM.

<sup>2</sup> The term ‘interact with each other’ is used to show there could be a bi-directional interplay relationship between culture and ITCRM, based on the cultural assumption that culture could contribute to both the cause and effect of an economic situation rather than either one or the other (See Chapter 2-Literature Review I).

#### **1.4.1 Research Gap One: Explore ITCRM Practices from the Perspective of Culture**

Trade credit in international trade allows a separation of goods exchange and simultaneous money exchange in international transactions (Pike & Cheng, 2001; Egger & Url, 2006) and permits the importers to take delivery of goods with postponed payment (Wilson & Summers, 2002). Offering the right credit terms is an essential element of an exporters' risk management because credit risk persists until exporters redeem the full trade credit from importers (Pridotkienė, Snieška & Snieškienė, 2006).

Credit risk, normally associated with payment terms such as open account and documentary collection in international trade (Pridotkienė, Snieška & Snieškienė, 2006), refers to the probability of default due to obligors' inability to meet their liabilities, which may cause financial loss to the creditors (Ammann, 2001).

Credit risk management (CRM) in international trade is more complicated than in domestic trade because firstly, it is more difficult to determine the credit history of customers who are located in other countries; secondly, there are more external factors influencing credit risk such as political and economic risks in foreign countries; thirdly, there is a low probability of successfully enforcing payment if customers default (Pridotkienė, Snieška & Snieškienė, 2006) and fourthly, monitoring costs are normally higher due to differences in languages and jurisdiction (Egger & Url, 2006).

In order to effectively manage international trade credit risk (ITCR), many authors have proposed risk assessment strategies. For example, evaluating obligors' failure risk within the country's risk context (Pridotkienė, Snieška & Snieškienė, 2006); considering the country and government risks in checking buyers' insolvency, default and payment delays (Bullivant, 2010); classifying and predicting ITCR by using Logic and Fuzzy Logic models (Tang & Chi, 2005); ranking the relative importance of credit information (buyer's credit character, financial strength, political and economic risk) in assessing foreign buyers (Ross & Pike, 1997); predicting ITCR according to financial ratios, firm-specific characteristics (e.g. size, maturity, R&D expenses, and depreciation expenses), and country risk indicators (Chi & Tang, 2006). Other researchers take a risk response perspective and advise exporters to circumvent ITCR through a technical adaptation by adopting a

portfolio view of credit risk (Gillespie, Hackwood & Mihos, 2010), diversifying market structures, increasing product additional values, employing financial instruments such as export credit insurance (Zheng & Liu, 2007), and optimising settlement methods and improving export practices (Pan & Zhang, 2006). Unfortunately, none of these studies take cultural factors into consideration in their analysis.

Nevertheless, many researchers have pointed to the close relationship between culture and credit risk management-related behaviours, such as risk preference and risk perception (Bontempo, Botton & Weber, 1997; Gierlach, Belsher & Beutler, 2010; Hsee & Weber, 1999; Kleinhesselink & Rosa, 1994; Kreiser et al., 2010; Moussetis, Rahma & Nakos, 2005; Slovic et al., 1991), risk management (Theil & Ferguson, 2003; Wahlström, 2009) and trade credit decisions (Brasch, 1973; Fafchamps, 1997; Fisman, 2003; Olegario, 2006).

Some authors explored the role of national culture on risk-related behaviour. For example, Hofstede (1980) claimed that an individualistic culture would encourage more risk preference, while Hsee and Weber (1999: 1215) indicated members from a collectivistic society were more risk tolerant because of “collectivism cushions” acting as the social diversification. Kreiser et al. (2010) further discovered that dimensions of cultural values such as power distance and uncertainty avoidance were inversely related to risk-taking levels in SMEs.

Other researchers probed into the role of culture on trade credit decisions, such as the role of “personalismo” on credit relationships in Latin America (Brasch, 1973); the impact of relationship, ethnic ties and discrimination on credit assessment in Zimbabwean and sub-Saharan African countries (Fafchamps, 1997; Fisman, 2003); the perception of transparency, gender and race in trade credit assessment (Olegario, 2006). However, these studies are either entirely based on domestic trade credit or do not specify whether the trade type is international or not.

Therefore, although the ITCRM has received great attention in both the literature and in corporate practice, most of the current studies focus on handling technical failures. Despite the importance of culture on credit risk-related behaviours, there is a dearth of studies that explore the practices of credit risk management from the perspective of culture, not to mention in the context of international trade. Therefore, this research aims to fill this gap in the current literature and explore ITCRM from the perspective of culture.

#### **1.4.2 Research Gap Two: Consider the Interaction of Different Layers of Cultural Elements**

Contemporary research generally treats ‘values’ as the core element of culture that dictate people’s behaviour and underlie their attitudes. Other outer layers of cultural elements include cultural practices, artefacts, beliefs and attitudes (Hofstede, 1990; House et al., 2004; Schein, 1985). Although this ‘onion’ structure of culture has long been recognised, almost all existing instruments focus only on ‘values’, which leaves an unknown relationship between the different layers of other cultural elements (Taras & Steel, 2009).

For example, with the exception of a few studies exploring the impact of cultural practices on managerial behaviours such as leadership (House et al., 2004; Kabasakal et al., 2012), entrepreneurship (Autio, Pathak, Wennberg, 2013), and organisational investment in training (Peretz & Rosenblatt, 2011), there is a scarcity of studies that explicitly explore the effect of cultural practices on other international business behaviours such as ITCRM decisions. Furthermore, almost all of the current studies regarding cultural practices are based only on data and the nine cultural dimensions developed by the Global Leadership and Organisational Behaviour Effectiveness (GLOBE) study (House et al., 2004), leaving other dimensions of cultural practices unexplored.

Whereas some studies contend that cultural practices are the manifestation of cultural values, and management behaviours are the direct consequence of cultural values (Hofstede, 1980, 1990; House et al., 2004), other studies argue that different culturally shared elements - similar to values - could also be important in underlying culturally patterned behaviours. For instance, general beliefs (or social axioms) are viewed as sometimes more useful than values in explaining individual cultural behaviours (Leung, Bond, & Schwartz, 1995; Leung et al., 2002).

Therefore, this study assumes that culture is the complex product of different layers of elements including cultural values, cultural practices, and beliefs as they interact with each other. In particular, both research sub-question one, *‘How are different elements of cultural factors such as cultural values, practices and beliefs associated with ITCRM of local SME suppliers in China?’* and the subsequent data analysis are designed not only to explore the impact of cultural values on

ITCRM decisions of Chinese local suppliers, but also to consider other elements such as cultural practices and cultural beliefs, and the interactions of different cultural elements on the ITCRM.

#### **1.4.3 Research Gap Three: Investigate Underlying Mechanisms of Intra-Individual Change towards Cultural Values As A Result of both Foreign Cultural Exposure and International Business Complexities**

There has been prolonged debate about whether culture is static or dynamic; whether culture acts as cause or effect, and whether the influence of culture on its members is chronically coherent and consistent, or contingent upon situations.

Cross-cultural comparative research (Hofstede, 1980, 1991; House et al., 2004) and its assumption of ‘cultural determinism’ normally posits culture (especially cultural values) as relatively static, stable and “chronically accessible” by its members, and deems culture either as a main cause or as a moderating cause on various economic outcomes (Taras & Steel, 2009: 46; Hong et al., 2000; Oyserman & Sorensen, 2009).

Previous studies exploring the links between culture and trade credit or risk management related behaviours have all treated culture as the cause. That is, credit risk-related behaviours are bounded by the influence of culture, including the impact of national culture on risk preference, risk perception and risk tolerance (Hofstede, 1980; Bontempo, Botton & Weber, 1997; Gierlach, Belsher & Beutler, 2010; Hsee & Weber, 1999; Kleinhesselink & Rosa, 1994; Kreiser et al., 2010); the impact of culture on risk management (Theil & Ferguson, 2003; Wahlström, 2009); the impact of national culture on trade credit decisions (Brasch, 1973; Fafchamps, 1997; Fisman, 2003; Olegario, 2006) and the impact of organisational culture on credit risk management (Strischek, 2004; Treacy & Carey, 2000; Nolan, 2010; Richard et al., 2008; Wahlström, 2009).

In contrast, there are increasing numbers of researchers exploring the dynamic aspect of culture, who argue that culture (and cultural values) are not static but dynamically created, shared, internalised, and reproduced among individuals, and the influence of culture on individuals is contingent upon situational demands (Allen et al., 2007; Bardi & Goodwin, 2011; Oyserman & Sorensen, 2009; Hong et al., 2000; Hong & Mallorie, 2004; Chiu & Hong, 2006).



Nevertheless, both theoretical studies and empirical research investigating the mechanisms of the experience of cultural adaptation as a result of both foreign cultural exposure and business complexity are still rare. In particular, the processes and underlying mechanisms of the intra-individual change towards cultural values that give rise to cultural adaptation by local nationals such as Chinese suppliers, still need to be further explored (Hitlin & Piliavin, 2004; Bardi & Goodwin, 2011; Caprar, 2011).

This study, in effect, takes a dynamic view of culture and regards culture as a set of cognitive repertoires that can be differentially primed and enacted; it also assumes that the influence of culture on individuals is contingent upon different situations (Hong, 2009; Hong & Chiu, 2001; Hong et al., 2000; Oyserman & Markus, 1998; Oyserman & Sorensen, 2009).

Specifically, research sub-question two, *‘In what ways do ITCRM situations and experiences change the cultural values and practices of local SME suppliers in China?’* aims to reveal how individuals learn to make sense of their situations differently rather than continuing to make sense in ways that are governed by pre-existing cultural values and beliefs. It also aims to reveal how the drivers, processes and outcomes of cultural values change interact at the individual level.

Whereas cross-cultural comparative approaches such as crossvergence theory (Ralston et al., 1997) have contributed to the understanding of cultural values evolution within societies, and have provided a ‘broad brush’ explanation by applying ‘measuring instruments’ to large multi-country samples, this study is qualitative and explores the sensemaking processes of individuals as they grapple with new and troubling circumstances like ITCR situations.

#### **1.4.4 Research Gap Four: Elaborate the Processes and Conditions That Give Rise to Intra-Cultural Variations, Particularly In the Chinese Culture and SME Context**

There has been some controversy over whether culture is completely or incompletely shared in a society or a country. Whereas the cross-cultural comparative research generally regards culture as a unitary, monolithic entity and assumes there is a high consensus of cultural values that are widely shared in a society, an increasing number of studies argue that culture is not completely shared and emphasise the importance of investigating intra-cultural variations.

Some extant studies contend that people in a society may hold different cultural stances toward national cultural attributes, and highlight the importance of situations in understanding intra-cultural variations (Brannen & Salk, 2000; Brannen, 1994, 2009; Caprar, 2011; Faure & Fang, 2008; Hong & Mallorie, 2004), however, there is still a shortage of studies that examine the processes and conditions that give rise to intra-cultural variations, and a lack of studies specifying the mechanism: the drivers, reasons and processes whereby individuals develop and shift between various cultural stances.

Furthermore, China has long been viewed as a country with native cultural values such as *guanxi* (interpersonal relationships), *mianzi* (face), *renqing* (reciprocal obligation) and harmony, and there are many studies which explore international business behaviours based on the assumption that Chinese business relationships are *guanxi*-based (e.g. Jiang et al., 2011; Chua, Morris & Ingram, 2009; Chua, Ingram, & Morris, 2008; Zhou & Xu, 2012; Fan, 2002; Zhou & Poppo, 2010). However, whether these traditional cultural values still play the same dominant roles in contemporary Chinese business, and whether the influence of these cultural values on international business behaviours is still significant and consistent for Chinese members, such as the category of Chinese suppliers exporting to international markets and managers working in Chinese SMEs, remains unknown.

Therefore, this study and particularly research sub-question three '*In what ways do these local suppliers in China reflect the attributes of the original national culture?*' is designed to investigate the processes and conditions that give rise to intra-cultural variations in the Chinese culture and SME context. Based on the analysis of qualitative data, this study elaborates the developing mechanisms including antecedents, intermediaries and outcomes of this intra-cultural variation in the context of ITCR situations.

Furthermore, based on the findings and conclusions of the first three research sub-questions, research sub-question four further aims to explore the practical implications of this research. Due to the important position of Chinese exports in world trade and the significant amount of bad debts in Chinese export trade, the findings and practical strategies revealed in sub-question four will assist Chinese suppliers and other international trade practitioners to develop more suitable

ITCRM strategies and improve their ITCRM abilities, particularly for those SMEs which are more vulnerable to the international trade credit risks.

## **1.5 RESEARCH OBJECTIVES**

This research aims to provide a thick contextualised description and explanation of the interplay between culture and ITCRM for suppliers in the Chinese cultural context. Specific research objectives are:

- To explore the association between different layers of cultural elements (cultural values, cultural practices and beliefs) and ITCRM decisions of suppliers working in Chinese SMEs, and to explain how the interaction of different cultural elements in diverse dimensions impacts on the ITCRM decisions of local SME suppliers.
- To investigate the underlying mechanisms of intra-individual change and adaptation towards native cultural values and practices in the context of ITCRM situations as Chinese suppliers grapple with both foreign cultural exposure and the troubling complexities and crises of international business.
- To examine ways in which Chinese suppliers reflect and share the attributes of their native culture; to elaborate the processes and conditions that give rise to intra-cultural variations in the Chinese cultural context as suppliers respond to cultural clashes and troubling circumstances in business.
- To explore ways to encourage adaptation by Chinese suppliers to enable them to adopt more suitable ITCRM strategies that still accord with local culture, and to uncover possible strategies to improve the ITCRM abilities of suppliers in the Chinese context.

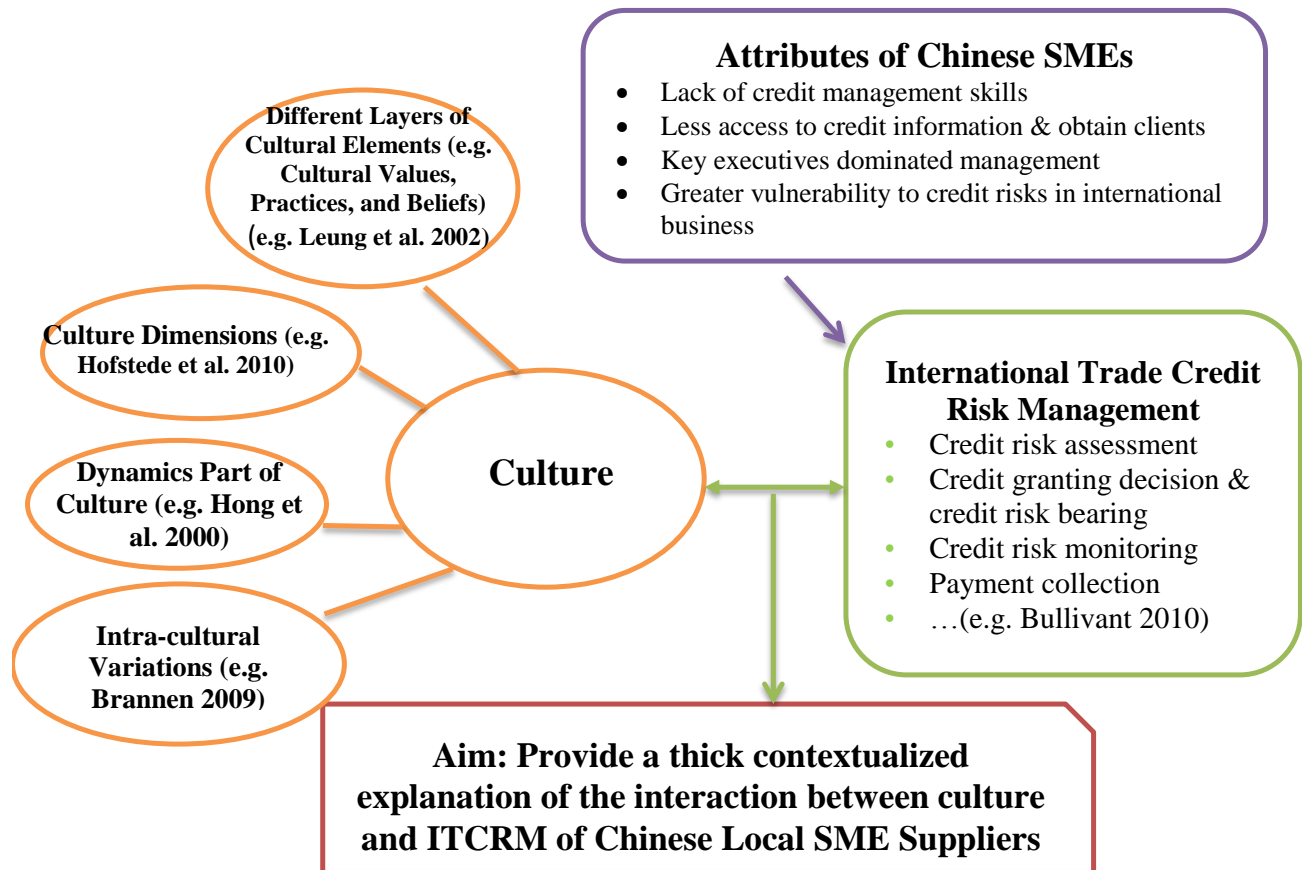
## **1.6 RESEARCH FRAMEWORK, SCOPE AND AIM**

This research builds upon extant studies and theories regarding culture and CRM, within the Chinese cultural context and business attributes of Chinese SMEs to develop a thick contextualised explanation of the interplay between culture and the ITCRM of local SME suppliers in China.

In terms of CRM, this research builds upon the steps of CRM (credit risk assessment, credit granting decision and risk bearing, credit risk monitoring, and payment collection) which are covered by the existing models such as those explored by Ng, Smith and Smith (1999), Summers and Wilson (2000), Lam (2003), Xie (2003) and Bullivant (2010). In terms of cultural elements, the researcher also considers major theories regarding cultural dimensions of values and practices (Hofstede, Hofstede & Minkov, 2010; Trompenaars & Hampden-Turner, 2012; House et al., 2004), other layers of cultural elements such as beliefs (Leung et al., 2002), dynamics in culture (Hong et al., 2000; Bardi & Goodwin, 2011), and intra-cultural variations (Brannen, 2009), etc..

The research scope focuses on the suppliers of Chinese SMEs because the impact of culture on ITCRM is potentially greater for SMEs than big companies. SMEs normally lack special CRM departments and professionals, and have less access to the financial and credit information of foreign buyers (Watt, 2007; Kreiser et al., 2010; Lumpkin & Dess, 1996; Maznevski et al., 2001). The management practices of SMEs are also more likely to be dominated by key executives and therefore, the credit decisions of Chinese suppliers working in SMEs are tend to be more private and subjective rather than open and objective, and thus more easily influenced by culture (Berger & Udell, 2002). Furthermore, SMEs generally operate on a smaller scale and have poorer risk-resisting abilities, leading to greater vulnerability to credit risks in international business (Zhou & Hang, 2011). Therefore, it appears more fruitful to analyse the ITCRM problems from the perspective of SMEs.

Figure 1-1 illustrates the research framework, research scope and research aims. However, it should be noted that this research framework is just a list of important concepts and aspects with potential relationships in this qualitative research project, rather than a predetermined causal and quantitative conceptual framework for generating a set of hypotheses. The preliminary knowledge of existing theories and models drawn from the three literature review chapters of this thesis also helps in the analysis of qualitative data and findings, and assists identification and articulation of the ways in which this research goes beyond existing studies.



**Figure 1-1 Research Framework, Scope and Aim for This Study<sup>3</sup>**

## **1.7 RESEARCH METHODOLOGY AND RESEARCH METHODS**

The study adopts a multiple qualitative methods approach, within a philosophical perspective of critical realism. This methodology was chosen due to the scarcity of existing literature and theories examining the interplay between culture and ITCRM practices; so it was considered preferable to inductively analyse themes and develop an explanatory framework and propositions drawn from data rather than generate specific and detailed hypotheses too early (Saunders, Lewis & Thornhill, 2009; Doz, 2011). The study attempts to provide a thick contextualised description and explanation of the interplay between culture and ITCRM; and thereby obtain a more finely grained and first-hand account of how local SME suppliers are behaving and thinking in relation to ITCRM decisions in the Chinese cultural context, rather than determine statistically

<sup>3</sup> Please note the framework design uses bi-directional arrows between culture and ITCRM in order to show the interaction of these constructs, that is, culture could be both the cause and the effect of various economic situations.

generalisable principles and discover causal laws about this demographic (Saunders, Lewis & Thornhill, 2009; Neuman, 2011). Moreover, the study assumes culture is dynamic, evolving and emergent rather than static and unchangeable. Thus, a positivist quantitative analysis such as a one-off cross-sectional survey, where culture is viewed as a static construct, would be less effective for this area of research (Taras & Steel, 2009; Triandis et al., 2001; Zhang, 2008).

The integrated, triangulated approach employed in this research uses multiple qualitative methods: focus groups, semi-structured interviews, field observation and document analysis. These approaches provide the researcher with a holistic picture of the phenomenon being studied, and ensure more reliable and valid research results (Silverman, 2011; Denzin, 1970; Denzin & Lincoln, 2000). The thick contextualised description and explanation also provide the researcher with a foundation to synthesise different theories and develop new conceptual and explanatory frameworks (Doz, 2011).

The research site, Zhejiang province in China, was selected because of the relevance of its social economic background. Chinese total exports have been ranked first in the world since 2009, and Zhejiang is one of the most developed Chinese provinces in terms of export-oriented SMEs. It also has relatively high ITCR in international trade (Zhou & Hang, 2011). This site also offers various advantages related to the researcher's background.

Formal data collection methods consisted of five focus groups and 57 semi-structured interviews. Primary informants included Chinese suppliers (particularly executives, owners, export sales staff and financial managers) working in Chinese SMEs. People in these roles normally have decision-making authority regarding ITCRM. Other significant informants included importers from different countries and staff working in export credit insurance companies and banks to ensure multiple sources of data and to generate more insights (Denzin, 1989; Caprar, 2011).

In order to increase research reliability and validity, the formal data collection was complemented by field observation and document analysis. Observations were undertaken in various international trade wholesale markets and trade fairs in Zhejiang, China. Sources of document analysis included company websites and employee manuals: reports, handbooks, brochures and

websites of credit insurance companies; local newspapers, including reported ITCR cases; and risk alert websites operated by local governments.

A combination of sequential, theoretical, and snowball sampling was used in this study. Sequential sampling was used to find the most informative cases, and to gather cases until a saturation point was reached (Neuman, 2011). Theoretical sampling was used to fulfil the requirements for theory-building, and snowball sampling was also used to identify additional relevant cases through networks between the cases (Neuman, 2011).

Qualitative data analysis was performed through an “iterative, hermeneutical approach of moving between the data and the literature to identify a chain of evidence” in order to develop a coherent explanatory framework (Shapiro, Ozanne & Saatcioglu, 2008: 73).

The data analytical procedures required an inductively-dominated and deductive-complemented approach. An inductive approach allows the researcher to explore the data without a predetermined theoretical framework, and build up theories and explanations that are adequately grounded in the data (Saunders, Lewis & Thornhill, 2009: 502), while a deductive approach allows the researcher to link the study with the existing body of knowledge, and enhance the researcher’s “theoretical sensitivity” (Strauss, 1987: 21).

Audio-recorded focus groups and interviews were transcribed verbatim. With the assistance of qualitative data analysis software, NVivo, all the data were labelled with codes, and sorted into appropriate categories, which were later revised, subdivided or integrated into different hierarchies to reveal patterns and identify relationships between categories (Gibbs, 2007).

Open coding, axial coding, and selective coding similar to grounded theory has been used (Strauss & Corbin, 1998; Gibbs, 2007). In contrast to grounded theory however, some codes were drawn from the extant theoretical concepts regarding culture and CRM. Other statements which cannot be related to current literature have been labelled with original terms (*in vivo* coding) to maintain authenticity.

Various data tabulations, which have been generated using the matrix coding queries of NVivo, provide the basis for developing theories and explanatory frameworks. The “constant comparative

method” was employed to compare and contrast different thematic categories and groups of cases (Glaser & Strauss, 1967; Silverman, 2011: 376).

Analytic induction was used to continuously test, redefine and confirm relationships between categories throughout the whole process of data collection and analysis thus further increasing research reliability and validity (Silverman, 2011; Saunders, Lewis & Thornhill, 2009; Gobo, 2009).

## **1.8 SUMMARY OF FINDINGS AND CONTRIBUTIONS**

The study initially reveals that there are indeed a range of dimensions of cultural factors associated with the ITCRM practices and decisions of local SME suppliers in China. These factors include different layers of cultural elements: 1) Chinese native cultural values such as *guanxi* (interpersonal relationship), *renqing* (reciprocal obligation), *mianzi* (face), *baotuan* (solidarity and cooperation), harmony and forbearance; 2) a cultural practice, i.e. disregard of contracts; 3) a cultural belief, i.e. locus of control. With a more refined ITCRM framework as drawn from the data, the data further reveals and demonstrates how different dimensions of cultural factors play diverse roles in the various steps of the ITCRM process.

However, further analysis and explanation of this data suggests that even though culture continues to shape behaviour long after the originating circumstances have changed, the grip that culture has on its members can sometimes be broken. This conclusion rests upon a theoretical stance which differs from the cross-cultural comparative approach, and builds upon a dynamic view of culture (Hong, 2009; Hong & Chiu, 2001; Hong et al., 2000; Oyserman & Markus, 1998; Oyserman & Sorensen, 2009). This stance conceptualises and provides empirical evidence for culture as a set of cognitive repertoires that can be differentially primed and enacted.

The study reveals that there are six different cultural stances (i.e. ‘maintaining’, ‘reflecting’, ‘eroding’, ‘opposing’, ‘minimising’ and ‘switching’) towards native cultural attributes, as taken by informants. Some suppliers (with an opposing cultural stance) adapt their values and behaviours to new circumstances, in ways that run counter to the norms of native Chinese culture.



Other suppliers (who take a reflecting or eroding cultural stance) are only partially adapting and some do not appear to adapt at all, and maintain their traditional values. Still others, those with a switching cultural stance, are able to switch among different cultural categories and act appropriately contingent upon the situation.

This study further explores the reasons and causes which account for these variations of adaptation by suggesting a process model. The model allows us to explore and gain a deeper understanding of the potential for dynamic values change in Chinese suppliers faced with both exposure to foreign cultures and international business complexities.

Since the informants adopt different cultural stances, and have different changes in values priorities such as shifting away from native cultural values such as *guanxi*, *renqing*, *mianzi* and stressing more on internal control, and reveal different trust behaviours including affection- or cognition-based trust, they demonstrate different practices and behaviours in their ITCRM decisions as a response to different economic, business and intercultural situations. These suppliers have been categorised as ‘conventional traders’, ‘bounded traders’, ‘stereotypical traders’, ‘conservative traders’, ‘rational traders’ and ‘pragmatic traders’.

This study contributes to a better theoretical understanding of intra-cultural variations. It suggests that the cultural category of local nationals (particularly the Chinese trader-suppliers in this study) may also be ‘contaminated’ as a result of exposure to the stimuli of foreign cultures and transaction complexities of international business. Those who are affected in this way may no longer be aligned with the attributes of their national culture. The study also demonstrates that in today’s international business context, there is an intra-cultural variation within the Chinese culture, and business people may take different cultural stances toward native Chinese cultural values, such as *guanxi* (strength of interpersonal relationships) which has long been recognised as a national cultural identity and extensively researched in extant studies.

This study further contributes to an understanding of the mechanism of intra-individual change toward native cultural values. It highlights the importance of an external triggering event and individual motivation in driving values change, and argues that the adaptability and direction of values change is contingent upon diverse factors and situations.

This study also contributes to a practical understanding of credit risk management in the international business context. Practical implications and suggestions for international trade practitioners (Chinese suppliers and foreign buyers) and governments are also discussed. Different adaptation and ITCRM improvement strategies have also been discussed for each category of suppliers. Furthermore, the study also leads to a deep understanding of the trust behaviours of Chinese suppliers in the international business context.

## **1.9 THESIS STRUCTURE**

The thesis has been organised in nine chapters which reflect the research questions and the inquiry process.

The research exploration begins by reviewing the extant literature regarding culture and ITCRM in Chapter 2, 3 and 4, with a focus on those studies with direct relevance to this research.

In Chapter 2, the literature which is concerned with key concepts and theories of ‘cultural’ studies has been reviewed. Emphasis has been placed on controversies around the dominant cross-cultural comparative approach, such as debates around cultural dimensions and cultural elements, and deliberations about whether culture is completely or incompletely shared, whether cultural influences on individuals are coherent or contingent upon situations, and whether culture is stable or dynamic. This chapter highlights the research gaps in cultural studies, particularly the dearth of research examining the mechanism that give rise to intra-cultural variations and cultural change.

The review of cultural studies has been followed by examination of the literature regarding ITCRM. Chapter 3 therefore summarises the key concepts and theories regarding risk, risk management and trade credit, credit risk, and credit risk management (CRM) and their cultural links. It highlights there is a research gap of studying the cultural factors of ITCRM, and gives the theoretical background of the serious ITCR situations in China.

Chapter 4 draws on literature to provide a Chinese cultural context for this research. Both etic cross-cultural comparative studies and emic cultural studies regarding Chinese culture have been

critically reviewed, followed by a review of studies regarding Chinese traditional native culture and cultural change, and credit risk-related Chinese culture.

Chapter 5 of the thesis continues by detailing the research methodology and research method used in investigating and addressing the research questions. Justification of multiple integrated qualitative methods has been provided, followed by the thorough description of the research scope, research site, informants, nonprobability sampling and recruitment techniques, data collection and data analysis used in this study. Ways to improve the reliability, validity and generalisability of this qualitative research have also been discussed.

Research findings have been presented in Chapters 6, 7, and 8, which respond to the research sub-questions presented in this introduction chapter. Chapter 6 addresses sub-question one. This chapter demonstrates the association between different dimensions of cultural factors and the ITCRM process, and provides preliminary empirical evidence of intra-cultural variations.

Chapter 7 addresses sub-questions two and three. It elaborates the reasons, conditions and processes that give rise to intra-cultural variations, and provides the mechanism of intra-individual change towards native cultural values as well as the outcomes of this change in diverse cultural stances.

Based on these findings, Chapter 8 addresses sub-question four and articulates the practices and behaviours adopted by the Chinese suppliers of different ITCRM categories as their response to different intercultural, economic and business situations. Different adaptation and ITCRM improvement strategies have also been discussed for each category of suppliers in this chapter.

Chapter 9 provides a final discussion of the theoretical contributions and practical implications of this study, especially the contributions to improved understanding of intra-cultural variations and the dynamic nature of culture. The limitations of this study and directions for future research are also discussed in Chapter 9.

# **CHAPTER 2 LITERATURE REVIEW PART I**

## **KEY CONCEPTS, THEORIES AND CONTROVERSIES OF CULTURAL STUDIES**

### **2.1 INTRODUCTION**

The literature review for this thesis consists of three chapters; an approach which reflects concerns embedded in the wording of the primary research question and the research philosophy which has guided the research design. To fully explain the tripartite structure of the literature review, we need to jump forward, just briefly, to methodology and methods. The methodology chapter of this thesis presents and explains the author's decision to design research which reflects the ontology and epistemology associated with critical realism.

Critical realists often combine an inductive-dominated approach with some elements of the deductive analytic approach through the whole process of research question framing, research design, data collection, data analysis and interpretation. Patton (2015: 112, 586) emphasises that “theory about how the world works ... informs realist inquiry” and as a consequence, realist sampling strategy is “always based in theory”.

Beginning a realist inquiry from what is currently known allows the researcher to link the study into the existing body of knowledge in the subject area and to identify a preliminary understanding of the main constructs and concepts. Current literature also provides the researcher with an initial analytical framework and a set of presumed relationships (Saunders, Lewis & Thornhill, 2009: 500); thereby enhancing the researcher's “theoretical sensitivity” (Strauss, 1987: 21). For example, during the data analysis for this thesis, some codes and data categories were informed by existing theories - the code ‘uncertainty avoidance’ is a cultural values dimension derived from theory developed by Hofstede (1980).

The primary research question is: *In what ways do culture and international trade credit risk management of local SME suppliers interact with each other in China?* Here then, is the reason

for presenting the literature review in three chapters. The primary research question calls for an inquiry into three directly relevant and overlapping areas:

1. The current thinking about - and controversies concerning the nature of - culture in general, how best to study culture, and how individuals and groups negotiate the need to rethink and perhaps reconfigure culturally informed beliefs, values, and behaviours
2. International trade credit risk management in China
3. The characteristics of traditional and modern Chinese culture

This first part of the literature review - Chapter 2 - introduces and discusses key concepts, theories and controversies regarding culture in a general sense, and identifies research gaps. In terms of cultural studies, the author has reviewed the key concepts and theories regarding culture; various cultural elements such as cultural values, practices and beliefs; the dominant cross-cultural comparative research approach (Hofstede 1980, 1991; the GLOBE study of House et al., 2004) and its limitations; and major controversies in cultural studies such as whether culture is completely or incompletely shared within a country or society, and whether culture is dynamic or static.

Chapter 3 then examines current research into international trade credit risk management (ITCRM) in general, and then specifically in China. The author has reviewed the concepts and theories regarding risk; risk management and its cultural links (Kreiser et al., 2010); and trade credit, credit risk, credit risk management (CRM) in international trade, and their cultural underpinnings (Brasch, 1973). A particular concern underlying this review of ITCRM is to discover what previous researchers have discovered about the ways in which culture influences ITCRM.

Finally, chapter 4 provides a Chinese cultural context that is important for this research. The chapter reviews Chinese cultural characteristics from both etic and emic perspectives, followed by an exploration of recent cultural changes, as well as credit risk-related culture. This third part of the literature review provides the reader with an understanding of the traditional but nevertheless dynamic Chinese cultural context, and in so doing, the reader is also provided with insights into

important Chinese cultural concepts, such as *guanxi*, *renqing*, harmony, and forbearance, which have long been regarded as the main characteristics of Chinese culture. If the author is to uncover and articulate the current and ongoing interplay between culture and international trade credit risk management, then she also has to address key questions about whether *guanxi*-related values are still dominant in today's China, and about the development of intra-cultural variations in China, especially in terms of *guanxi* values.

In essence then, this review of the literature not only summarises major theories and recent theoretical developments in this subject area – and in the process identifies research gaps - but also provides a preliminary understanding of the research focus before addressing the empirical data in later chapters. As a consequence, this three-part review builds perspectives which will be helpful in analysing the qualitative data and arriving at findings; and it will assist the author's later identification of, and explanation of, the contributions to theory and practice which are made by this research. One key outcome of this literature review is the construction by the author of a process model of intra-individual values change. That model represents proposed relationships between antecedent and intermediary factors which account for observed outcomes and the author will seek to deepen and extend the model through the later analysis of her empirical qualitative data.

## **2.2 CONCEPTUALISATION OF 'CULTURE'**

Culture is regarded as an intricate, intangible, subtle, and multidimensional construct; its conceptualisation has evolved over time but it still lacks a generally accepted definition (Yeganeh & Su, 2006; Zhang, 2008). As early as 1871, the anthropologist E. B. Tylor referred to culture as “that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society” (Tylor, 1958: 1). Since then, scholars with different research interests and interpretations have produced a substantial number of differing definitions. For example, culture has been defined as “the collective programming of the mind that distinguishes the members of one group or category of people from others” (Hofstede, Hofstede, & Minkov, 2010: 6): a definition which reflects an interest in using culture

to explain and predict behaviour (collective programming) and to explain and predict differences in behaviour. Culture has also been described as “a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 2010: 18): a definition which reflects an interest in understanding the origins of, and the purposes of, cultures. Another definition focuses on the “shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives that are transmitted across generations” (House et al., 2004: 15): a definition which reflects an interest in the remarkable durability and longevity of cultures. Given these significantly different interests in, and ways of paying attention to, culture, it is not surprising that the literature is replete with controversies.

## **2.3 MAJOR CONTROVERSIES IN CULTURAL STUDIES**

Cross-cultural comparative research has been a dominant approach in international business-related cultural studies. Many studies with this research focus (Hofstede, 1980; House et al., 2004; Trompenaars & Hampden-Turner, 2012) seem to assume that culture is a unitary, monolithic entity that is relatively stable across populations and over time. Comparative researchers have been accused of contending that each society has a single culture system, which is widely shared and “chronically accessible” by its members (Oyserman & Sorensen, 2009: 25), and that the influence of the cultural system on its members’ values, cognition, behaviour, and beliefs is continual and coherent (Hong et al., 2000: 709). It is assumed that individuals within a society or a nation hold culturally homogenous views and are primarily influenced by their entrenched heritage cultures, which clearly distinguish them from members of other national groups. Statistical mean scores using positivist quantitative methodology have been employed in cross-cultural studies to reveal cultural differences such as variations amongst values across geographical boundaries between particular countries, but not within groups or societies.

The cross-cultural comparative approach has been questioned by scholars who accuse it of being overly simplistic and far too deterministic. They argue that this approach only identifies cultures that vary across, but not within, groups. They also posit that this approach fails to capture the dynamics of multicultural experience (Hong et al., 1998; Faure & Fang, 2008). Questions such as ‘in what ways and to what extent do individuals within countries share values?’ still lack exploration and explanation (Fischer & Schwartz, 2011) and the developing process of intra-cultural variety remains under-investigated.

Nevertheless, the mean score differences indicating cultural disparity under the cross-cultural comparative approach provide an invaluable understanding of the major cultural orientations, and offer a foundation from which further exploration of the processes that bring about inter- and intra-cultural variations can be undertaken (Hong & Mallorie, 2004).

The following section of this chapter discusses the major debates around the cross-cultural comparative approach in international business studies, mainly regarding the appropriateness of research methodologies, the composition of cultural elements, the sharedness of culture within a country or society, and the dynamics rather than the stability of culture.

### **2.3.1 Appropriateness of Research Paradigms and Methods**

The positivist paradigm has occupied a dominant position in international business-related cultural studies for the last several decades (Brannen, 2009). However, the value-based quantification of cultural differences in cross-cultural comparative approaches such as the research of Hofstede, Schwartz and in the GLOBE study - which is characterised by an investigation of causal relations and an assumption of undiversified cultural entities of fixed values - has been characterised as generating “diminishing returns” in interpreting complex cultural phenomena (Birkinshaw, Brannen & Tung, 2011: 574; Brannen, 2009). Even within the positivist paradigm, the quantitative approach has received a lot of criticism, such as the limitations of the uni-organisational matched sampling in relation to generalisability. This means of measuring culture without information about value dispersion and skewness has also been regarded as hindering the detection of cultural diversity and the existence of subcultures within groups (Taras & Steel, 2009).



As a response to those limitations, scholars such as Birkinshaw, Brannen and Tung (2011), Redding (1994), and Tung and Verbeke (2010), have called for a paradigmatic shift in cultural studies. These scholars argue that an interpretivist qualitative methodology would be more effective if we want to understand contemporary multifaceted, interconnected, dynamic, and interactive cultural contexts. This researcher has adopted a qualitative approach to exploring culture in relation to the research questions of the thesis, but she has not entirely discarded the findings of comparative, positivist researchers such as Hofstede.

### **2.3.2 Composition of Cultural Elements**

There is general agreement within the research literature that culture has different elements which are ‘layered’, such that some elements such as values are considered ‘inner’ and others such as behaviour are considered ‘outer’. Contemporary research normally treats ‘values’, or similar notions such as “hidden cultural grammar” (Hall, 1983: 6) or “basic assumptions” (Schein, 1985: 9) as the core inner elements of culture which dictate and explain behaviour (Varner & Beamer, 2011). Nevertheless, some scholars present evidence and arguments to the effect that other kinds of culturally shared elements similar to values, could also be important in explaining culturally patterned behaviours, for instance, culturally transmitted concepts (Baumeister, 2005), social axioms or general beliefs (Leung et al., 2002), assumptions or perceptions of social norms (Morris, Hong, & Chiu, 2012), and causal attribution tendencies (Morris & Peng, 1994).

#### **2.3.2.1 Cultural Values**

Values are viewed as “cognitive structures” or “central schemas”, which exert an overarching influence on people’s perceptions, goals, attitudes, and behaviour, and inform people about what is important to them in their lives (Bardi & Goodwin, 2011: 273; Bardi, Calogero, & Mullen, 2008; Maio, 2010; Roccas & Sagiv, 2010). Values are felt by people according to their significance, and ranked in a hierarchy of importance or priorities. The location of values in that hierarchy therefore determines people’s perception and behaviours (Schwartz, 1992). Crucially however, there is an element of choice in value rankings (Roccas et al., 2002), and people may actively decide how important certain values are to them (Bardi & Goodwin, 2011).

In spite of insights into the structural nature of culture provided by the ‘onion’ metaphor, almost all existing instruments focus on values (Taras & Steel, 2009). Nevertheless, recent findings (Schwartz, 2014; Morris, 2014) indicate that the dominant paradigm of investigating culture as shared ‘values’ is not the only effective means. Furthermore, there is also ongoing debate about the best way to measure values. Some suggest that values can be measured directly by asking people to rate their importance (e.g. in survey questionnaires) because people know what their values are (Bardi & Goodwin, 2011). Others such as Maseland & Hoorn (2010) argue that values-based surveys conflate values with marginal preferences and tend to assume that all values are cultural.

### **2.3.2.2 Cultural Practices**

Cultural practices differ from values—the psychological or cognitive part of culture—and represent the actual behavioural or ‘doing’ part of culture (Matsumoto, 2006; House et al., 2004). As another manifestation of culture, cultural practices are “the discrete, observable, objective and behavioural aspects of human activities in which people engage related to culture” (Matsumoto, 2006: 35). They are collective “behaviours, institutional practices, proscriptions, and prescriptions” considered by the cultural members as “legitimate, acceptable, and effective” in addressing the needs, responding to specific contexts and adapting to external challenges (House et al., 2004: 16; Matsumoto, 2006).

As explained above, based on the onion structure assumption of culture, some scholars (such as Hofstede, 2001; Triandis, 1995; Hofstede, Hofstede & Minkov, 2010) contend that cultural practices are the manifestation of the invisible part of culture (i.e. values). They argue that since cultural values drive practices, there is a positive correlation between cultural values and practices.

In contrast, the GLOBE project (House et al., 2004) challenged this assumption, and surprisingly found that cultural values and practices are negatively correlated for seven out of nine of the cultural dimensions investigated. Based on this finding, researchers proposed that the “counter-intuitive” relationship between values and practices could be very complex rather than just a simple positive line (Javidan et al., 2006: 901). Others further analysed the negative correlations between cultural values and practices and suggested they could arise from a result

similar to “satiation” effect (Maseland & van Hoorn, 2009: 529; Javidan et al., 2006; Brewer & Venaik, 2010; Taras, Steel & Kirkman, 2010); the effect of “buyer’s remorse” (Taras, Steel & Kirkman, 2010: 1333); or insufficiency in internalising the cultural values by individuals (Fischer, 2009). It was also suggested that there is a possible reverse causality where practices are a cause rather than a consequence of values (Steel & Taras, 2010); or that the negative correlations could reflect the considerable cultural heterogeneity within a country with marginalised, radicalised minority members (Steel & Taras, 2010; Taras, Steel & Kirkman, 2010).

Still other researchers find little or even no relationship between values and practices (Bond, Leung & Schwartz, 1992; Kristiansen & Hotte, 1996). As Matsumoto (2006) said, even among studies that provide support for the linkage, values typically do not account for more than 10 per cent of the variance in actual behaviours.

#### ***2.3.2.3 Cultural Beliefs***

Cultural beliefs and values are related, but some strong distinctions exist (Robertson, 2001). Since values are central schemas and relate to cognitive structures, they are ranked in an individual’s hierarchy of importance or priorities (Roccas et al., 2002; Bardi & Goodwin, 2011), and normally assume the form ‘X is important’ (Leung et al., 2002). For example, *guanxi*, *renqing*, *mianzi*, and harmony are important in Chinese society. In contrast, a belief spells out a perceived relationship between two concrete entities or concepts. An example is that maintaining harmony contributes to the nurturing of interpersonal relationships. People may hold a belief to different degrees (Leung et al., 2002; Bond et al., 2004), particularly because the hold of beliefs (more so than values) can be loosened by disconfirming evidence, and this feature of beliefs will play a crucial role in the author’s later analysis of her empirical, qualitative data.

Beliefs are viewed as sometimes more useful than values in explaining individual cultural behaviours (Leung, Bond & Schwartz, 1995). One of the most popular areas of research regarding cultural beliefs is the study of ‘social axioms’, which are regarded as essential in people’s belief systems. Like values, they guide social behaviours across a variety of situations and contexts (Leung et al., 2002; Bond et al., 2004; Kurman & Ronen-Eilon, 2004; Cheung, Leung & Au, 2006). A pan-cultural structure with five dimensions of social axioms at the individual level has been revealed and labelled as cynicism, social complexity, reward for application, spirituality, and

fate control (Leung et al., 2002). Later, two dimensions of social axioms at the culture-level have been derived, and labelled as Dynamic Externality and Societal Cynicism (Bond et al., 2004).

For example, locus of control, a general belief about the causes of events that happen to oneself, has been shown to be related to a wide variety of behaviours (Spector, 1982, 2002). Locus of control refers to the degree to which people expect that a reward or a consequence is dependent on their own behaviour or attributes, versus the degree to which people expect that the reward or consequence is subject to the control of other forces outside of themselves (chance, luck, fate) and may occur independently of their own actions (Rotter, 1966; Rotter, 1990). Several similar concepts or cultural dimensions have been examined in extant research, including by Heckhausen and Schulz (1995), Kluckhorn and Strodtbeck (1961), Weisz, Rothbaum and Blackburn (1984) Trompenaars and Hampden-Turner (2012) and Leung et al. (2002).

### **2.3.3 Debates around Cultural Dimensions**

In order to compare culture differences, the cross-cultural comparative approach normally attempts to group different cultures into clusters based on nations or other geographic boundaries (Hofstede, 1980, 1991; Hofstede, Hofstede & Minkov, 2010; Trompenaars & Hampden-Turner, 2012; House et al., 2004; Inglehart et al., 1998, 2004), and gauge ‘cultural distance’, a method of measuring culture differences along key universal dimensions (Shenkar, 2001; Hofstede, 2001).

Selected countries have been compared in terms of a small set of highly abstract, universal dimensions of cultural taxonomies, such as the prevailing cultural value dimensions (Hofstede et al., 1980, 1991, 2010; Trompenaars & Hampden-Turner, 2012; House et al., 2004; Inglehart et al., 1998, 2004); the cultural practice dimensions (House et al., 2004; Autio, Pathak & Wennberg, 2013; Peretz & Rosenblatt, 2011); cultural beliefs (Leung et al., 2002; Bond et al., 2004; Cheung et al., 2006), and several others such as the tightness and looseness of culture (Triandis, 1995; Gelfand, Nishii & Raver, 2006).

Table 2-1 summarises and compares the dimensions of major cultural values theories in the cross-cultural comparative approach. Additional cultural dimensions include high-and low-context, monochronic and polychronic time (Hall, 1976); survival values vs. self-expression values; traditional values vs. secular-rational values (Inglehart et al., 1998, 2004); result vs.

relationship oriented; formal vs. informal culture; rigid vs. flexible time orientation; and introvert vs. extrovert (Gesteland, 2003).

**Table 2- 1 Comparison of Major Theories of Cultural Values Dimensions**

<b>Kluckhohn &amp; Strodtbeck (1961)</b>	<b>Hofstede (1980, 1991), Hofstede, Hofstede &amp; Minkov (2010)</b>	<b>Schwartz(1992)</b>	<b>Trompenaars &amp; Hampden-Turner (1997, 2012)</b>	<b>House et al. (1999,2004) -GLOBE study</b>
Social relationships	Power Distance	Power Achievement	Achievement vs. ascription	Power distance
	Individualism vs. Collectivism	Security	Individualism vs. communitarianism	Societal collectivism In-group collectivism
	Masculinity vs. Femininity			Gender egalitarianism Assertiveness
	Uncertainty Avoidance			Uncertainty avoidance
Sense of time	Long Term Orientation	Tradition	Human-time relationship	Future orientation
Activity	Indulgence vs. Restraint	Hedonism Stimulation	Neutral vs. emotional	Performance orientation
		Conformity		
Human kind and nature		Self-direction	Human-nature relationship	
Human nature				Humane orientation
		Benevolence Universalism	Specific vs. diffuse	

*Source: Adapted from the researcher's previous publication: Zhou (2008)*

In contrast to cross-cultural comparative research, other scholars such as, Gergen et al. (1996) argue that the cultural dimensions proposed by cross-cultural comparative research reflect mainly a westerner's perspective, so they do not fully capture the cultural distinctiveness of many individual countries, particularly non-western countries.

Another ongoing debate concerns the values dimensions that supposedly represent cultures (Hofstede, 2006; Javidan et al., 2006; Smith, 2006; Maseland & Hoorn, 2010). Taras and Steel (2009) warned that there is a tendency to assume not only that cultures are values, but also that all values are cultural. However, based on the investigation of 27 cultural value dimensions used in 136 instruments to quantify culture, a majority of the dimensions were scored as irrelevant or marginally relevant to cultural background (Taras & Steel, 2009).

Hong et al. (1998) further pointed out that reducing culture to a set of multidimensional value or attitude orientations distorts its essential features. Therefore, they propose it is more effective to

regard culture as found within different groups who are able to practice sociality in a complex yet culturally intelligent manner.

#### **2.3.4 Completely or Incompletely Shared: Rising attention to Intra-cultural Variations**

Cross-cultural comparative approach normally uses geographic boundaries, especially national boundaries, to cluster cultures. It assumes that there is high cultural agreement within a country and substantial variability between countries (Fischer & Schwartz, 2011). For example, under this approach, values have been viewed as properties of cultures and as shared cultural meaning systems. Supporters of cross-national culture analysis (e.g. Leung et al., 2011) have sought to corroborate the pivotal role of national culture in international business research, and claim that the nation is still a useful unit of analysis because of its well-defined boundary.

However this approach, which regards culture as an entity shared by its members, and which groups cultures based on national averages, has been challenged by many scholars. For example, Triandis (1995), Gelfand and Raver et al. (2011) discussed the differences between tight and loose societies, and claimed that in loose societies with weak social norms, there is high tolerance of deviant behaviour in most situations. A further criticism is that it is fallacious to assume cultural homogeneity within nations, as intra-national variations can often be as significant as cross-national differences (Tung, 2008; Gould & Grein, 2009; Oyserman, Coon & Kemmelmeier, 2002).

There is growing attention being paid to intra-cultural variety and an increasing number of studies investigate phenomena such as cultural multiplicity (Faure & Fang, 2008; Brannen, 1994, 2009; Caprar, 2011), multicultural/bicultural individuals, and frame-switching (Hong et al., 1998; Brannen & Thomas, 2010; Lücke, Kostova & Roth, 2014). These researchers argue that increasing international contacts through globalisation, international business, travelling and migration, lead to greater movement by individuals among different cultures, so uncontaminated national cultures become less common. The impact of international business on intra-cultural variety will be one of the key analytical tools employed by this author in the later interpretive analysis of data.

Many authors now contend that culture is incompletely shared, and instead attempt to investigate how people differ in values, cognition, behaviours within a society or country. For example, in terms of the sharedness of cultural values, some researchers (Schwartz, 1992; Roccas et al., 2002) emphasise values as individual properties which relate to personality traits, and suggest that values vary across individuals. Others contend that there could be contradictory, paradoxical and opposite values co-existing simultaneously as a result of increasing integration and dynamism within each culture (Fang, 2005; Faure & Fang, 2008). The extent of within-country values consensus is dependent on the complexity of social structure, the social contexts and social change. Consequently there is only moderate to low values agreement within societies because individuals and groups within countries may experience unique social conditions (Hitlin & Piliavin, 2004; Fischer & Schwartz, 2011).

Studies on ‘cultural stances’ offer a less monolithic view of culture and seem particularly appropriate at this time of increasing intercultural and multicultural connections and the drift toward complex, pluralistic societies. Individuals may take different cultural stances, ranging from “hyper-normal stances”, to “normal stances” and to “marginal-normal stances” (Brannen & Salk, 2000: 457; Brannen, 1994). Differentiated cultural stances also depend on the cultural attributes in question: the cultural attributes exhibited by individuals reflect their ongoing particular cultural histories in various contexts, and their simultaneous memberships in several subcultures and subgroup cultural identities. Consequently, an individuals’ fitness with the national culture of origin varies in degree (Brannen & Salk, 2000; Brannen, 1994, 2009). For example, local employees of multinational corporations are not always found to be culturally interchangeable with the rest of the host-country population, but may display a variety of cultural stances more or less reflective of the national culture (Caprar, 2011).

### **2.3.5 Cultural Influences: Coherent or Contingent Upon Situations**

Cross-cultural comparative research contends that culture is widely shared and “chronically accessible” by its members, and the influence of the cultural system on its members’ values, cognition, behaviour and beliefs is coherent, continual and constant (Hong et al., 2000: 709;

Oyserman & Sorensen, 2009:25). In contrast, researchers on cultural multiplicity and multiculturalism argue that the salience and activation of cultural attributes (such as individualism or collectivism) is contingent upon situations, that is, whether the cultural attribute is being triggered or cued. As Oyserman and Sorensen (2009) propose, culture is a multidimensional rather than a unitary construct. Each society could thus encompass multiple potentially paradoxical cultural meaning systems (cultural syndromes) rather than a unitary, single cultural system. The salience of a cultural syndrome is dependent on the situation (or context) and hinges on whether the cultural syndrome is commonly or rarely cued. Under this assumption, cross-cultural differences mean that societies differ in how likely a cultural syndrome, such as the value of collectivism, is to be cued or triggered. Therefore the chronic salience of this syndrome is a way of making sense of situations.

Multiculturalism researchers also highlight the importance of the interaction between culture and 'situation' in understanding inter- and intra-cultural variations. They contend that individuals can acquire and simultaneously possess more than one cultural meaning system likely to contain incompatible or opposing culturally-bound social knowledge. Individuals switch between different cultural frameworks in response to diverse cues (contexts, languages or symbols associated with one culture or the other) in the social environment (LaFromboise, Coleman & Gerton, 1993; Hong et al., 2000).

By taking a dynamic constructivist view of culture, researchers have been able to define culture as a loose network of domain-specific and situation-specific cognitive knowledge structures, which are produced, distributed, shared, internalised, and reproduced among a collection of interconnected individuals (Hong & Chiu, 2001; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Chiu & Hong, 2006). Through a series of cognitive priming experiments investigating the experience of bicultural individuals (people who have incorporated two cultural meaning systems), these studies found that switching between two cultural meaning systems within the individuals' multicultural minds depended on the exposure to cultural icons or stimuli which activate one cultural system or another. The activation of a particular cultural system and switching among different cultural frames and cultural identities is seen as an automatic (rather than conscious) process (Hong et al., 2000; Bardi & Goodwin, 2011).



Both the presence of cross-cultural differences and the activation of a particular cultural meaning system within an individual depend on situational constraints: the availability, accessibility, and applicability of cultural beliefs (Gelfand et al., 2006; Hong et al., 2000; Morris & Gelfand, 2004). Availability concerns whether or not individuals in a given society possess a particular piece of cultural knowledge; but whether an available piece of knowledge directs cognition, attitudes, and behaviours depends on whether the cultural knowledge is not only available but also accessible and applicable (Hong & Mallorie, 2004).

Accessibility refers to the likelihood that an individual may have different cultural meaning systems. Which cultural meaning system is activated (and thus influences people's thinking and behaving) depends on whether it is being triggered or cued. For many cultural values such as individualism vs. collectivism, societies may not differ in terms of availability (whether a cultural meaning system exists), but rather differ in the number of institutions and situations within the society that cue each of a variety of cultural systems. When a cultural system is institutionally accessible and situationally cued, its impact is activated in the moment (Hong et al., 2000). More specifically, chronic accessibility refers to the fact that the cultural knowledge is widely shared among members of a cultural group through everyday practice, and frequent public or private communication. Temporary accessibility refers to the accessibility of a cultural knowledge due to cues in the immediate context. For example, cultural icons, symbols and languages can be the triggers of cultural meaning systems through cultural priming (Hong et al., 2000).

Applicability refers to the appropriateness of culture-related behaviours in a particular context (Hong & Mallorie, 2004) such as the distinction between an in-group and an out-group in achieving harmony (Triandis, 1995; Liu, 2008a). The dynamics of availability, accessibility, and applicability will be taken into account when the author analyses the meaning of her empirical data.

### **2.3.6 Culture as Static or Dynamic**

There has been a prolonged debate about whether culture is static or dynamic, and whether it acts as cause or effect. Those using a cross-cultural comparative approach and supporters of cultural

divergence theories (Hofstede, 1980, 1991) regard national culture (and values in particular) as relatively stable and immutable (Zhang, 2008). Based on the assumption of “cultural determinism”, these authors regard culture as the main or moderating cause of various outcomes including economic growth and economic inequality (Taras & Steel, 2009: 46). Static, deterministic conceptions of culture are, however, being challenged by intercultural and multicultural researchers who view culture as emergent, evolving, socially constructed and actively created by cultural members (Zhang, 2008). Therefore, in many observed relationships, culture could be positioned as a consequence rather than a cause, implying a reversed or a bi-directional causal arrow (Erez & Gati, 2004).

Since culture is learned and learnable rather than something we are born with, some theorists argue that cultural change is essentially a process of relearning (Varner & Beamer, 2011; Brown, 1995). For example, at the meso organisational level, Lundberg (1985) formulated cultural change as a learning cycle that is made possible by inquiry and discovery. Dyer (1986) also recognised cultural change as a form of learning cycle that is highly dependent on the notion of a search for new cultural possibilities. At the micro individual level, relearning can also be considered as central to explaining cultural change. For example, acculturation can be viewed as a process of cultural relearning, under which a multicultural environment may produce a blending of multiple cultural systems or replacement of one system by another, or lead to an experience of “frame-switching” (Hong & Mallorie, 2004: 64; Hong et al., 2000).

#### **2.3.6.1 Examining Cultural Dynamics from an Individual Cognitive Perspective**

Some studies examine the dynamic aspect of culture from the individual cognitive perspective, and show that although cognitive structures are relatively stable, they can change as a result of cultural learning. For example, based on a cultural priming experiment, research by Hong and co-researchers addressed the ‘dynamic’ process of internalising cultural knowledge in shaping cognition or behaviour, and examined multicultural experiences from early life socialisation (Hong & Chiu, 2001; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Chiu & Hong, 2006). Similarly, Lücke, Kostova and Roth (2014) explored the multicultural learning experience of adults such as MNC managers who acquire their cultural cognitions through professional experiences, and demonstrated that culture could be learned later in life. As a consequence of

different cultural experiences for example, the number of cultures to which an individual is exposed, or the intensity or nature of the experience, individuals differ in how well they understand other cultures, and how they internally organise cultural cognitions, which leads to differences in thinking and behaviour.

#### **2.3.6.2 Examining Culture Dynamics from Cross-Cultural Values Change Perspective**

Other studies have focused on the dynamic nature of culture by referring to values formation and evolution (Allen et al., 2007; Bardi & Goodwin, 2011; Inglehart & Baker, 2000; Giacobbe-Miller et al., 2003; Ralston, 2008). Under the cross-cultural comparative approach, values are normally expected to be relatively stable and less amenable to change than outer levels of culture such as attitudes and behaviours (Konty & Dunham, 1997; Hofstede, 1992). Since people behave according to values without any conscious reflection (Schwartz, 1996), they do not normally challenge their values, which makes those values resistant to change (Cooper & Shallice, 2006). Nevertheless, extant research reports that values do sometimes change. Some hold that there is minimal change in values (Lubinski, Schmidt & Benbow, 1996; Schwartz, 2005), while others contend that individual values can change more substantially (Sheldon, 2005).

Many studies measured values change either based on mean level changes (changes in the average value importance in a population) (Ralston et al., 1997, 1999, 2006; Ralston, 2008; Witt, 2008), or intra-individual changes where individual differences in value change create changes in the rank ordering of individuals about the importance of a certain value (Bardi & Goodwin, 2011). Nevertheless, cultural change could be a top-down–bottom-up process where changes in one level influences change in other levels (Erez & Gati, 2004). For example, the macro level national culture could affect adaptation and change at lower levels through top-down processes, while changes at the individual level could reciprocally alter higher levels of culture through bottom-up processes.

Regarding cross-cultural mean level changes, convergence, divergence and crossvergence are three streams of research regarding cultural values change. Followers of the convergence stream claim that traditional values in different societies will eventually be replaced by modern values, and aggregate into the typical values of Western capitalism (Inglehart & Baker, 2000).

Supporters of the divergence stream such as Max Weber argue that traditional values are relatively independent from economic, political, and technological change because of their enduring and persistent traits; therefore, distinctive traditional values in a society will persist to reflect its cultural heritage. Ralston's (2008) theory of values evolution has provided a more finely grained understanding of the processes involved. Crossvergence theory suggests that values formation and evolution is driven by a dynamic interaction between the effect of long term sociocultural influences and more immediate influences from business ideology (Ralston, 2008). As a result of crossvergence, values not only evolve, but also develop into new and unique values systems (Ralston, 2008).

Cultural values change at a national level has normally been viewed as a passive reaction driven by external factors like globalisation (Bird & Stevens, 2003), the flow of foreign direct investment (Jiang, Chen & Liu, 2010) and technological, political and economic revolutions (Fang, 2005). In contrast, cultural change at meso levels such as the organisational level, may be initiated, controlled and managed in an active way where leadership plays an important role in the process of building, evolving and sustaining culture (Schein, 2010; Elsmore, 2001; Trice & Beyer, 1991; Brown, 1995).

Different values may demonstrate varying levels of adaptability, with core values being less receptive and adaptable than peripheral ones (Ralston et al., 1997; Giacobb-Miller et al., 2003). For example, although economic development promotes a massive shift from traditional to secular-rational values, historically-established distinctive values still exert an enduring influence which leads to "path dependent" cultural change (Inglehart & Baker, 2000: 49). In contrast to more adaptable and receptive values such as individualism, long-term orientation, and power distance which have a curvilinear relationship with national wealth measured by GDP per capita; values like uncertainty avoidance and masculinity are less likely to change over time because of their strong reflection of stable institutional traditions (Tang & Koveos, 2008). Furthermore, cultural adaptability could also be impacted by cultural distance. For example, when the cultures of host country and home country are more similar to each other, assimilation of the values introduced by foreign corporations would be greater (Giacobb-Miller et al., 2003; Kostova & Zaheer, 1999).

### **2.3.6.3 Examining Culture Dynamics from Individual Values Change Perspective**

Intra-individual values change is regarded as the change in the importance of a value in the hierarchy or ranking. Since values are ranked in a hierarchy, any change in one value would result in change to other values in the hierarchy (Bardi & Goodwin, 2011; Rokeach, 1973; Schwartz, 1992).

The processes of values change have been perceived to be contingent upon situations. The openness to values change depends on various factors, such as the level of one's attraction to the new culture in the process of acculturation, the importance of preserving one's own cultural identity (Berry, 1980), and the values preserved by individuals (self-direction and stimulation values, or conservation) (Schwartz, 1992; Allen et al., 2007). Furthermore, values change could be a short-term temporary change or a long-term change, either through an automatic route or an effortful route (Bardi & Goodwin, 2011).

Preliminary models outlining processes of individual value change have been provided by a few researchers. For instance, Bardi and Goodwin (2011) identified the facilitators, the structure and moderators of the process of value change. They proposed that values change could be facilitated by different psychological factors such as priming, adaptation, identification, consistency maintenance, and direct persuasion; however no empirical evidence has been provided.

In terms of antecedents (external events), cultural factors have already been considered to drive the cultural adaptation of individuals. For example, studies by Berry (1988, 1997) and Brannen (2004) have examined the adaptation experiences of expatriates as an exposure to foreign cultures. Other studies (Hong, et al., 2000; Hong, 2009; Hong & Mallorie, 2004) further demonstrated that exposure to different cultural factors such as cultural icons may lead to a process of cultural priming, which plays an important role in changing the cognitive structures of biculturals and multiculturals and results in an experience of frame-switching.

In terms of intermediary psychological factors, cultural priming has been proposed as one of the facilitators and processes of values change (Bardi & Goodwin, 2011). Under cultural priming experiments, when exposed to certain cues and stimuli symbolising one culture, individuals may temporarily exhibit the characteristics of this culture, making them think and behave in ways that

correspond with the primed culture (Hong et al., 2000). This implies that foreign cultural primes (cues and stimuli symbolising a particular alternative culture) can activate individuals' interpretative schema of this culture, leading to an automatic values change. Cultural primes (or cultural environmental cues) can be diverse, including iconic images of one culture (Hong et al., 2000) or language symbols such as personal pronouns (Gardner, Gabriel & Lee, 1999; Oyserman & Lee, 2008).

In addition to cultural priming, metacognition can also be viewed as one of the psychological processes of values change. Metacognition is the “thinking about thinking” (Dunlosky et al., 2007: 138; Flavell, 1979) in which people engage in “cognitions about their cognitions” (Wegner & Carlston, 2005: 495). It comprises the awareness, monitoring, processing, and evaluation of cognitive activity (Klafehn, Li & Chiu, 2013) as well as adjusting and controlling one's thinking and learning activities (Flavell, 1979; Swanson, 1990).

Metacognition can promote the development of values and alterations in values structure (Bubeck & Bilsky, 2004; Flavell, 1977), and it can facilitate and lead to an active, effortful, thoughtful process of values change because of the following three reasons.

Firstly, metacognition can promote the process of active self-questioning, reflection and introspection, especially when individuals are facing complicated and unpredictable situations (Klafehn, Li & Chiu, 2013; Flavell et al., 1970; Tobias & Everson, 2002). Metacognition implies conscious, deliberate, goal-directed mental behaviours, which involve actively and intentionally monitoring, controlling and self-regulating cognitive activities such as the processes of knowledge learning and problem solving, to ensure that a cognitive goal, like a change in values, effective solution to a problem, or competence in cross-cultural settings, is achieved (Flavell, 1979). Since metacognition is conscious and thoughtful, it is controllable by the person engaging in it, and reportable to the researchers (Thomas et al., 2008).

Secondly, metacognition can facilitate learning and effortful problem solving by individuals, and enhance their ability to adapt to a new environment. It can help individuals to recognise and define a problem, formulate a strategy to solve the problem, identify and regulate their mental

information and resources to solve the problem, as well as to monitor and evaluate the solution to the problem (Thomas et al., 2008; Klafehn, Li & Chiu, 2013).

Thirdly, when individuals are exposed to cross-cultural settings, metacognition can promote cultural awareness of one's own and others' cultural choices, and endorse both cognitive flexibility and cultural adaptation abilities in individuals (Klafehn, Li & Chiu, 2013). In the cross-cultural context, metacognition has been regarded as metacognitive CQ or cultural metacognition, which is a central linking component of cultural intelligence (Ang et al., 2007).

Cultural metacognition is the individual's level of mental processes directed at acquiring, understanding, and calibrating cultural knowledge, and it regulates cognition and behaviour during cross-cultural interactions (Ang et al., 2007; Chua, Morris & Mor, 2012; Thomas et al., 2008). Cultural metacognition emphasises self-awareness and sensitivity to other's culture when adapting to new environments (Mendenhall & Oddou, 1985). It also involves questioning one's own cultural assumptions, reflection during cross-cultural interactions, and adjusting one's own cultural knowledge during or after interaction with individuals from different cultures (Ang & Van Dyne, 2015; Flavell, 1979).

Cultural metacognition may drive values change because it endorses active thinking in cross-cultural situations, encourages active challenges to culturally bounded thinking and assumptions, and stimulates individuals to adapt their cultural theories (Klafehn, Li, & Chiu, 2013). It enhances cognitive flexibility, in which individuals employ cultural knowledge flexibly, revise their cultural theories, and reflect changes in their beliefs and experiences to meet the shifting demands in the intercultural environment (Chiu & Hong, 2005; Van Dyne, Ang & Koh, 2009). Cultural metacognition facilitates cultural frame switching for biculturals, the integration of multiple cultural ideas (Chiu & Hong, 2005), and cultural adaptation.

In interesting additional possibility for the purpose of this research is that exposure to foreign cultural cues and stimuli which start as an automatic process may also extend to contemplation of certain values, leading to metacognition and values change (Bardi & Goodwin, 2011).

## **2.4 LITERATURE REVIEW SUMMARY (CULTURAL ASPECTS)**

Cross-cultural comparative research, a dominant approach in international business-related cultural studies for the last several decades, regards culture as a unitary, monolithic entity and assumes that in a society, there is a high consensus of cultural values which are widely shared and ‘chronically accessible’ by its members. This approach also views culture, especially cultural values, as relatively static and stable.

In contrast, there are an increasing number of studies which argue that: 1) culture is not completely shared in a society, but there are intra-cultural variations within a society or country in which people may hold different cultural stances toward national cultural attributes; 2) culture and cultural values are not static, but rather dynamically created, shared, internalised, and reproduced among individuals; 3) the influence of culture on individuals may not be coherent, consistent and chronically accessible, but contingent upon situations according to the availability, accessibility and applicability of cultural knowledge in a particular context. Furthermore, many authors contend that cultural studies should not just be limited to values, but consider other elements such as cultural practices, cultural beliefs, and the interactions of different elements. As summarised in Table 2-2, these studies provide insights and a foundation for understanding intra-cultural variations and the dynamic aspects of culture, even though there are still some research gaps.

Extant studies have already emphasised the importance of investigating intra-cultural variations. Researchers have explored the cultural adaptation experiences of expatriates (Berry, 1988, 1997; Brannen, 2004), biculturals and multiculturals (Hong, et al., 2000; Lücke, Kostova & Roth, 2014), and host-country nationals working in MNCs (Caprar, 2011) who demonstrate deviance from national cultures and intra-cultural variations. In contrast, this author’s research focuses on the cultural-shifting experience of local suppliers (a category of local nationals), who were previously regarded as mono-cultural individuals because they lack overseas living experiences, but may also differ in how they are affected by the native culture they share because of their recent international business experiences, unique cultural relearning histories and differing conscious motivations to change.



**Table 2- 2 Key Controversies across the Full Range of Cultural Studies**

<b>Types of Cultural Studies With Different Assumptions and Arguments</b>	<b>Major Cultural Theories</b>	<b>Research Gaps</b>
<b>Cross-cultural Comparative studies with Different Dimensions</b> <i>Positivist paradigm focuses on statistical mean scores based on geographical (e.g. national) boundaries;</i> <i>Culture is unitary, monolithic, widely shared in a society;</i> <i>Culture is chronically accessible by its members; cultural influence is coherent and continual;</i> <i>Culture is relatively static and stable.</i>	<b>Value-based cross-cultural comparative studies</b> Kluckhorn & Strodtbeck 1961; Hall 1976; Schwartz 1992; Hofstede 1980, 1991; Triandis 1995; Hofstede, Hofstede & Minkov 2010; Trompenaars & Hampden-Turner 2012; Inglehart et al. 1998, 2004; House et al. 2004;	Dearth of studies examining interactions of different cultural elements
	<b>Belief-based cross-cultural comparative studies</b> Leung et al. 2002; Bond et al. 2004; Leung et al. 2012; Cheung et al. 2006; Rotter, 1966, 1990; Spector 1982, 2002	
	<b>Practice-based cross-cultural comparative studies</b> House et al. 2004	
	<b>Other Cultural elements-based cross-cultural comparative studies</b> Culturally transmitted concepts (Baumeister 2005) Assumptions or perceptions of social norms (Morris, Hong & Chiu 2012) Causal attribution tendency (Morris & Peng 1994)	
<b>Studies calling for a paradigmatic shift (e.g. interpretivist qualitative methodology)</b>	Birkinshaw, Brannen & Tung 2011; Brannen 2009 Taras & Steel 2009; Redding 1994; Tung & Verbeke 2010	
<b>Studies arguing culture to be incompletely shared within a society or country; there are intra-cultural variations</b>	Brannen & Salk 2000; Brannen 1994, 2009; Fang 2005; Faure & Fang 2008; Hong et al. 1998, 2000; Lücke, Kostova & Roth 2014; Faure & Fang 2008; Brannen 1994, 2009; Caprar 2011; Tung 2008; Gould & Grein 2009; Oyserman, Coon & Kimmelmeier 2002	Dearth of studies exploring the reasons, conditions and processes that give rise to intra-cultural variations
<b>Studies arguing culture's influence on individuals is contingent upon situations</b>	Hong et al. 2000; Oyserman & Sorensen 2009; Hong & Chiu 2001; Hong & Mallorie 2004; Hong 2009; Chiu & Hong 2006; Morris & Gelfand 2004	
<b>Studies arguing culture is dynamic and evolving</b>	<b>Examining Culture Dynamics from Individual Cognitive Perspective</b> Hong & Chiu 2001; Hong et al. 2000; Hong & Mallorie 2004; Hong 2009; Chiu & Hong 2006; Lücke, Kostova & Roth 2014	Dearth of studies examining cultural-shifting experience of local nationals
	<b>Examining Culture Dynamics from Cross-Cultural Values Change Perspective</b> Ralston et al. 1997; Ralston et al. 1999; Ralston et al. 2006; Ralston 2008; Witt 2008; Inglehart & Baker 2000; Giacobbe-Miller et al. 2003	Dearth of empirical studies exploring the processual mechanism of cultural adaptation experience and intra-individual values change
	<b>Examining Culture Dynamics from Individual Values Change Perspective</b> Allen et al. 2007; Bardi & Goodwin 2011; Rokeach 1973; Sheldon 2005	

Extant studies mainly explore the ‘outcomes’ of the experience of exposure to foreign or multiple cultures (Brannen & Salk, 2000; Brannen, 1994, 2009; Caprar, 2011; Lücke, Kostova & Roth, 2014; Hong & Chiu, 2001; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Chiu & Hong, 2006). For example, Lücke, Kostova and Roth (2014) proposed five patterns, i.e. compartmentalization, integration, inclusion, convergence and generalization, as the outcomes of specific multicultural experiences of MNC managers. Consequently, there is a lack of research exploring the processual mechanism of cultural adaptation as a response to both foreign cultural exposures and the international business complexities and crises, which is exactly the focus of this thesis.

Extant studies (Hong & Mallorie, 2004) have already highlighted the importance of situation and context in understanding intra-cultural variations. Studies of ‘cultural stances’ by Brannen and Salk (2000), Brannen (1994, 2009), and Caprar (2011) also mention the importance of ‘situation’ in the appearance and disappearance of certain cultural stances. However, there is still a shortage of studies elaborating the conditions and processes that give rise to intra-cultural variations, and a paucity of research specifying the mechanisms such as drivers, reasons, and processes, for development and transfer among various cultural stances.

Although the cross-cultural comparative approach generally views culture (especially cultural values) as relatively static and stable, there are increasing numbers of studies that explore the dynamic aspect of culture. Particularly, previous studies demonstrate that cognitive structures sometimes are adaptable in responding to stimulus of cultural exposures (Hong et al., 2000; Hong & Mallorie, 2004), which provide foundations for investigating the dynamic aspect of cultural values, despite values being regarded as ‘cognitive structures’ or ‘central schemas’ which are difficult to change.

In addition to studies exploring the values evolution at the cross-cultural mean level (Ralston et al., 1997, 2006; Witt, 2008), there are a few studies that attempt to explore the intra-individual values change (Bardi & Goodwin, 2011; Sheldon, 2005). However, theoretical studies and empirical evidence investigating the mechanisms of cultural values change at the individual level have still been scarce (Hitlin & Piliavin, 2004; Bardi & Goodwin, 2011).

Nevertheless, based on the extant literature, a model (presented in Figure 2-1) has been developed by the author with testable propositions concerning the processes that lead to intra-individual change of cultural values, as both a summary of this literature review (cultural aspects) and as a guide for explaining later research findings and contributions.

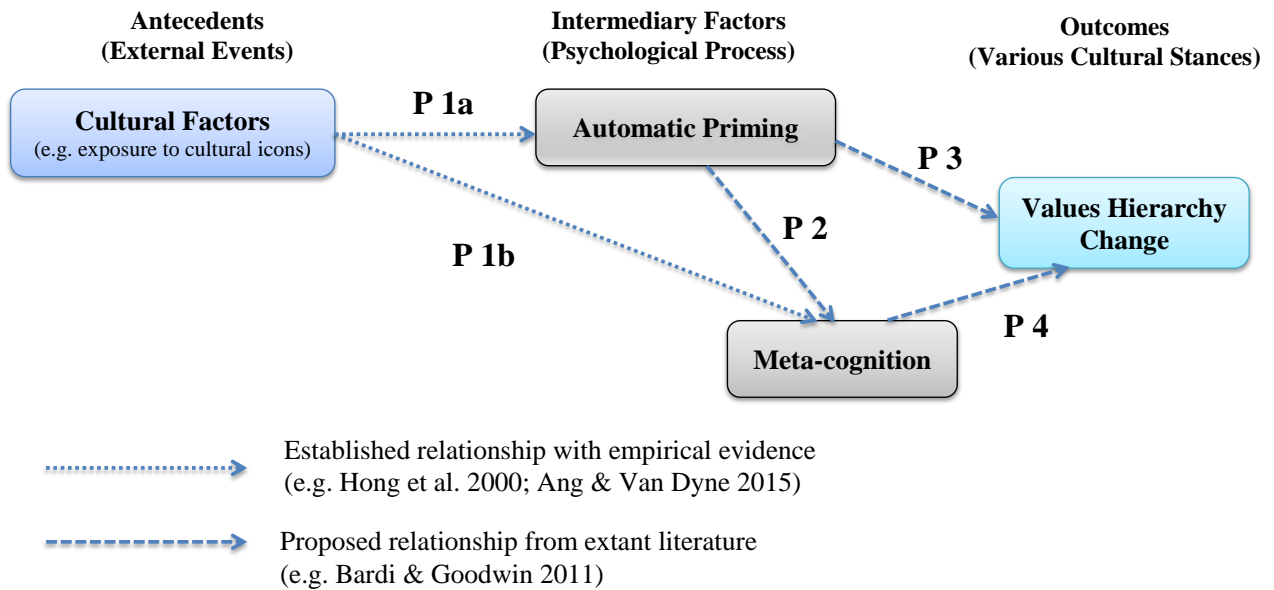
In line with the process displayed in the model (from left to right), propositions have been developed regarding antecedent factors, intermediary factors, and eventual outcomes. The model captures a proposed set of relationships between exposure to new cultural factors such as social norms and behaviours that are encountered through interaction with members of other cultures (and in the case of this research, international traders/purchasers are members of other cultures) (Propositions 1a and 1b); and the intermediary factors of metacognition (proposition 2) and automatic priming (proposition 3). As shown in Figure 2-1, some of the proposed relationships (i.e. P 1a and P 1b) have already been established with empirical evidence, while others (i.e. P 2, P 3, and P4) are at this stage still literature-based requiring further empirical evidence.

*P1: Exposure to cultural factors such as cultural icons leads to (a) an automatic priming process and (b) an effortful and conscious metacognition process of values change.*

*P2: Exposure to cultural factors that results initially in an automatic process, can lead to conscious contemplation of values, which constitutes an active metacognition process resulting in values change.*

*P3: Priming as an automatic cognitive process leads to intra-individual values hierarchy change.*

*P4: Metacognition as a conscious, effortful process leads to intra-individual values hierarchy change.*



**Figure 2- 1 A Proposed Process Model of Intra-individual Values Change (Literature-based)**

The process model will be deepened and extended by the author as she later analyses her empirical qualitative data. It may be the case, for instance, that this literature-based process model does not capture external non-cultural antecedent factors that are just as important in explaining value change outcomes. In effect, this study has been designed in part to uncover how individuals learn to make sense of their situations differently, rather than continuing to make sense in ways that are governed by pre-existing cultural values and beliefs. The thesis shows how individuals can change the importance of particular values in their ranking contingent upon different situations thereby adopting different stances toward native cultural attributes. It should also be noted that this study only focuses on those values and practices (e.g. guanxi and particularism) which are commonly viewed as having cultural attributes, rather than focusing on individual idiosyncratic values which may be affected by personality, experiences or emotions (Taras & Steel, 2009).

# **CHAPTER 3 LITERATURE REVIEW PART II**

## **INTERNATIONAL TRADE CREDIT RISK MANAGEMENT STUDIES**

We turn now to an examination of credit risk management literature for two reasons. Firstly, the author seeks to establish a baseline of what is considered best practice when it comes to credit risk management in general, and international trade credit risk management (ITCRM) in particular. Secondly, the author seeks to establish what is already known – and not known - about the role played by national and organisational cultures in ITCRM.

### **3.1 RISK, RISK MANAGEMENT AND RISK CULTURE**

#### **3.1.1 Definition of Risk and Risk Management**

Risk is defined by many authors from a negative consequence perspective (Bergami, 2011), as “being exposed to the possibility of a negative outcome” (Borge, 2001: 4), “the chance of injury, damage or loss” (Chorafas, 2001: 9). This leads to a definition of risk management as the practice of protecting an organisation from harm or exposure (Blake, 2003; Kaen, 2005).

In contrast, ISO31000 defines risk as the “effect of uncertainty on objectives” which implies both the negative and positive consequences of risk. Risk management is the “coordinated activities to direct and control and organisation with regard to risk” (Shortreed, 2008). Similarly, Gorrod (2004: 3) regards risk management as the measures to “quantify the amount of financial loss (or gain) of an organisation” which also considers both sides of risk.

Since the 1960s, along with the changes in business environment, modern risk management has shifted from a reactive inwards-looking approach with reliance on insurance to a more open and proactive prevention approach with consideration of business externalities (Huss & Jacobs, 1991; Bergami, 2011).

### **3.1.2 Major Enterprise Risk Management Frameworks**

Early risk management frameworks include the COSO framework (Committee of Sponsoring Organisations of the Treadway Commission, 2004), Integrated Business Risk Management System (BRMS) model (Statzer, 1999), AS/NZS 4360 risk management standards, and the early enterprise risk management (ERM) system in the 1990s (Bergami, 2011). These frameworks not only emphasised the enterprise-wide risk management approaches, but also gradually recognised the importance of culture in risk management. For example, the BRMS model acknowledged business values and cultural change as the foundation of internal control and the risk management system (Root, 1998; Bergami, 2011; Statzer, 1999).

Later risk management frameworks, whether they were formulated by Casualty Actuarial Society ERM Framework (Casualty Actuarial Society, 2001), COSO ERM Integrated Framework (PricewaterhouseCoopers LLP, 2004) or ISO31000 (Secretariat of ISO TMB WG on Risk Management, 2012) not only include sequential application of similar steps such as risk assessment, risk treatment or response, risk monitoring and review, but also implicitly or explicitly emphasise culture as a primary factor in implementing risk management processes within the internal operations and strategies of organisations (Kimbrough & Componation, 2009). The process components of these three major modern risk management frameworks are summarised and compared in Table 3-1. Although these frameworks provide the macro and conceptual models of risk management processes at the enterprise level, they do not offer a model specifically dealing with credit risk in international trade at the micro level, which is the focus of this study.

**Table 3- 1 Major Enterprise Risk Management Frameworks**

Casualty Actuarial Society ERM Framework	ISO31000 Risk Management Framework and Process	COSO ERM Integrated Framework
	Mandate and Commitment	
	Framework Design for Managing Risk	
	Implementing Risk Management	
	Process for Managing Risk:	
	• Communication and Consultation	
Establish Context	• Establishing the Context	Internal Environment
	• Risk Assessment	Objective Setting
Identify Risks	○ Risk Identification	Event Identification
Analyse/Quantify Risks	○ Risk Analysis	Risk Assessment
Integrate Risks		Risk Response
Assess/Prioritize Risks	○ Risk Evaluation	Control Activities
Treat/Exploit Risks	• Risk Treatment	Information & Communication
Monitor & Review	• Monitoring and Review	Monitoring
	Monitoring and Review of Framework	
	Continual Improvement of the Framework	

*Source: adapted from Kimbrough and Componation (2009)*

### 3.1.3 Organisational Culture, National Culture and Risk

Building a good risk culture involves “embedding credit risk awareness and processes throughout the sales and finance functions” (Gillespie, Hackwood & Mihos, 2010: 4), building “a common language” to enhance the organisation’s risk management, and educating and training employees in how to be aware of risks in their realm and effectively employ strategies to reduce risk (Roth, 2007: 69). Carrel (2010) even stated that “a risk culture is corporate DNA” which not only elaborates the importance of corporate culture in risk management, but also regards managing risks as a corporate function which influences all decisions and perceptions in risk management. Similarly, Kimbrough and Componation (2009), Nica, Matei and Mironescu (2011), Creedy (2011) and Antoncic (2003) describe the role of organisational culture in effective risk management and organisational performance.

Other authors explored the relationship between national culture and risk taking behaviour and risk management. For example, Moussetis, Rahma and Nakos (2005) deduced the significant impacts of national culture orientations such as risk propensity and uncertainty avoidance on the financial performance of organisations. Theil and Ferguson (2003) broadly discussed the impact of different aspects of culture (values, norms and religion) on risk management processes, particularly with respect to the case of insurance as a risk management tool.

Several others investigated cross-cultural differences in risk preference and risk perception such as Slovic et al. (1991), Kleinhesselink and Rosa (1994), Gierlach, Belsher and Beutler (2010), Bontempo, Botton and Weber (1997). Hofstede (1980) claimed individualistic cultures associated with capitalism and competition would encourage more risk preference, while Bontempo, Bottom and Weber (1997) and Hsee and Weber (1999) stated that members from a collectivistic society like the Chinese, when compared with Americans, were more risk-seeking and risk tolerant in economic fields, or in money related risk decisions. Weber and Hsee (1998: 1215) argued the reason underlying weak risk avoidance amongst Chinese might be attributable to the “collectivism cushions”, which act as the social diversification protecting against possible losses and allow collectivistic cultural members to receive financial support through strong social connections and interdependence even if the result is unfavourable. They further found the cross-cultural differences in risk preference were caused primarily by the cultural differences in risk perception rather than the attitude towards perceived risk (Weber & Hsee, 1998). Alternatively, based on the survey of 1048 firms in six countries, Kreiser et al. (2010) failed to find a significant relationship displayed between individualism, masculinity and risk taking, although uncertainty avoidance and power distance dimensions were negatively related to risk-taking levels in SMEs.



## **3.2 TRADE CREDIT, CREDIT RISK, INTERNATIONAL TRADE CREDIT RISK (ITCR) AND CREDIT CULTURE**

### **3.2.1 Conceptualising Trade credit**

The word ‘credit’ is closely associated with ‘trust’ because it originates from the Latin word *credere*, which means to “trust or to believe”, and ‘trust’ is defined as “reliance on and confidence in the truth, worth, reliability of a person or a thing”. This focus on trust is also relevant to credit management (Bullivant, 2010: 19).

Trade credit, also referred to as mercantile credit or commercial credit (Medina, 2006), has been defined in different but overlapping ways such as “an instrument facilitating the exchange of goods” (Ferris, 1981: 243), an arrangement “allowing customers to obtain goods or services and pay at a later date” (Summers & Wilson, 2000: 37), the “deferred payment to suppliers” (Wilson & Summers, 2002: 317) or “the advancement of goods to a buyer in exchange for the promise to pay at some future date” (Olegario, 2006: 9). Unlike consumer credit and credit offered by commercial banks, it is the source of short-term funds extended by a firm (creditor) to another firm (obligor) (Medina, 2006), and is normally regarded as an important method of short-term financing for smaller firms or growing firms which are constrained by financial institutions (Wilson & Summers, 2002).

As explained by both financial and non-financial theories, trade credit has several comparative advantages over banking credit such as reducing transaction costs (Ferris, 1981), providing assurances about the quality of the supplier’s products (Long, Malitz & Ravid, 1993; Petersen & Rajan, 1997), providing contractual solutions to the asymmetric information problems concerning guarantee product quality and buyer creditworthiness (Ng, Smith & Smith, 1999), and offering a guarantee that induces appropriate specific investment in the buyer-seller relationship (Ng, Smith & Smith, 1999; Dass, Kale & Nanda, 2010). It also allows suppliers to use price discrimination and price competition in response to market changes (Meltzer, 1960; Schwartz & Whitcomb, 1979; Brennan, Maksimovic & Zechner, 1988; Mian & Smith, 1992). Trade credit allows more acquisition of information regarding the financial health of buyers, and more cost effective

investigation and monitoring of the credit risk of buyers (Schwartz, 1974; Petersen & Rajan, 1997). Creditors have more control of repayment from buyers through cutting off future supplies (Petersen & Rajan, 1997). They can also more efficiently repossess and liquidate goods for the credit granted, and rescue value from existing assets (Mian & Smith, 1992; Petersen & Rajan, 1997) as well as capture the source of future business and build new supplier customer relationships (Wilson & Summers, 2002) to optimise inventory management (Bougheas, Mateut & Mizen, 2009; Teng, 2009).

### **3.2.2 Trade Credit Risk and Credit Risk Management**

Although trade credit offers suppliers an important strategic, marketing or competitive tool (Wilson & Summers, 2002), it may cause credit risk, or economic loss suffered due to the default or inability to fulfil payment obligations of buyers (Lam, 2003; Grath, 2011). It is also risky because it is generally “unsecured” (Olegario, 2006: 9). Furthermore, the cost of credit risk is not restricted to the cost of non-payment, or bad debt losses, but applies to the cost of the credit period itself and the cost incurred in late payment (Bullivant, 2010).

Consequently, this leads to the necessity of credit risk management (CRM), with an aim to maximise firms’ profitable sales over the shortest acceptable period with the minimum of bad debt losses. This normally should cover management over solvency risk, the liquidity risk and the volume risk of customers (Bullivant, 2010). Table 3-2 summarises and compares the main procedures in CRM of business enterprises. Among these, Xie (2003) is specially designed for CRM in international trade. The table demonstrates that the main steps of CRM include credit risk assessment, credit granting decision, credit risk monitoring and bearing, payment collection, which are covered by all of the five models.

**Table 3- 2 Credit Risk Management Frameworks for Business Enterprises**

<b>Ng, Smith &amp; Smith (1999)</b>	<b>Summers &amp; Wilson (2000)</b>	<b>Lam (2003)</b>	<b>Xie (2003)</b>	<b>Bullivant (2010)</b>
Credit risk assessment	Customers' credit risk assessment	Policy and Infrastructure	Credit risk assessment: <ul style="list-style-type: none"> <li>• Customer communication</li> <li>• Background investigation</li> <li>• Credit assessment</li> </ul>	Credit risk Assessment
Credit risk bearing	Credit granting decision making	Credit Granting	Credit Granting Decisions <ul style="list-style-type: none"> <li>• Credit terms decision</li> <li>• Loan securitization and risk transfer</li> </ul>	Establishment of credit terms and limits
Monitoring of accounts	Receivables collection Action taking against defaulters	Monitoring & Exposure Management	Account receivables and Overdue debts management <ul style="list-style-type: none"> <li>• Documentation management</li> </ul>	Monitoring and control of debt
Payment collection	Customer behaviour monitoring Management information compiling	Portfolio Management	<ul style="list-style-type: none"> <li>• Receivables Tracking management</li> <li>• Trade debts collection</li> <li>• Debts Crisis management</li> </ul>	Maintenance of sales ledger Track customers' information
	Default or bad debt risk bearing	Credit Review		Collection of payment
Accounts receivable financing	Receivables investment financing			

It is important to note that the CRM models presented by several others, such as the Hong Kong Institute of Bankers (2012), Saunders and Allen (2010), Duffie and Singleton (2009), and Wagner (2008) are specially designed for managing credit risk of banks and financial institutions (loans, bonds, credit derivatives and other securities) rather than that of business enterprises (trade credit). Therefore, they are not relevant to this study.

### **3.2.3 Credit Risk Management in International Trade**

In international trade, the security of some terms of payment such as letters of credit (documents against payment, and documents against acceptance) and payment secured by bank guarantee is dependent on the issuing bank and confirming bank (Grath, 2011). In contrast, the risk of documentary collection (documents against payment, and documents against acceptance) and

open account (direct debit) is dependent on the buyer honouring the documents or solely on the buyer until payment, which means greater risk (Grath, 2011).

Compared with domestic trade, international trade can expose companies to greater credit risk. Atkinson (2005) argued that at least three more 'Cs' need to be considered in ITCRM, namely, currency, country and culture, in addition to the traditional five 'Cs' in domestic trade: character, capacity, capital, conditions and collateral.

The assessment of ITCR is more complex not only because it is more difficult to obtain the credit information of a customer from a different country, but also the credit risk is influenced by both external factors like the political and economic environment, and internal factors such as financial capabilities, dishonest intentions and the moral attitudes of customers (Pridotkienė, Snieška & Snieškienė, 2006). Differences in banking, currencies, documentation, payment terms, languages, and credit culture throughout the world also give rise to more complicated credit risk in international trade than that in domestic trade (Bullivant, 2010).

In order to effectively manage ITCR, a few authors propose risk assessment strategies, such as evaluating the obligor's failure risk in the context of country risk (Pridotkienė, Snieška & Snieškienė, 2006) considering buyers' country and government risks in checking buyers' insolvency, default and payment delays (Bullivant, 2010), applying Logit analysis in ITCR prediction and the obligor's bankruptcy prediction (Chi & Tang, 2006). Other strategies include classifying and predicting ITCR by using Logit and Fuzzy Logic models (Tang & Chi, 2005), ranking the relative importance of credit information (buyer's credit character, financial strength, political and economic risk) in assessing foreign buyers (Ross & Pike, 1997), and predicting ITCR according to financial ratios, firm-specific characteristics (size, maturity, R&D expenses, and depreciation expenses), and country risk indicators (Chi & Tang, 2006).

Other authors, writing from a risk response perspective, suggested exporters could circumvent ITCR through technical strategies by adopting a portfolio view of credit risk (Gillespie, Hackwood & Mihos, 2010), diversifying market structures, increasing product additional values, employing financial instruments such as export credit insurance, forward contracts, futures, options, and swaps (Cai, 2005; Zheng & Liu, 2007), optimising settlement methods, and

improving export practices including choosing the appropriate trade terms and minimising documentary discrepancies (Pan & Zhang, 2006).

Furthermore, it is also recommended that instead of keeping the entire CRM “in-house”, firms can externalise some or all of the CRM activities, such as outsourcing the majority of credit management functions through factoring (Summers & Wilson, 2000: 38); or employing local agents’ services to obtain customers’ credit information and follow up overdue amounts and disputes on the spot (Bullivant, 2010).

### **3.2.4 Credit, Trade Credit and Culture**

A few researchers have examined the determinants of trade credit usage and credit policy choices, such as the size of a firm, the duration and strength of the supplier relationship, and ethnic and geographic ties, and language (Wilson & Summers, 2002; Aaronson et al., 2004; Lapavitsas, 2007). In these studies, researchers discovered that the norm of repayment, the trust required for the advance of credit, and moral evaluation of credit participants is context-specific (Lapavitsas, 2007). Unfortunately, none of these studies take cultural factors into account in their analysis.

Nevertheless, a few studies explored the relationship between credit and culture, and those studies can be seen as falling into two separate categories. The first category probed the role of national culture in trade credit decisions. For example, Brasch (1973) identified that the key cultural trait of “Personalismo” in Latin American countries was tightly linked with trade credit relationships. More specifically, interpersonal relationships, reciprocity, and the introduction of intermediaries are considered essential in Latin American countries, when evaluating the inner trustworthiness of obligors. In the context of Zimbabwean manufacturing, Fafchamps (1997) found that network effects based on relationship and statistical discrimination are key factors in determining the eligibility of granting trade credit. Fafchamps and Minten (1999) and McMillan and Woodruff (1999) found that relationships played an important role in gaining access to trade credit in Madagascar and Vietnam, respectively. Fisman (2003) found that firms were more likely to obtain preferential trade credit from suppliers with the same ethnic background, because of ethnic

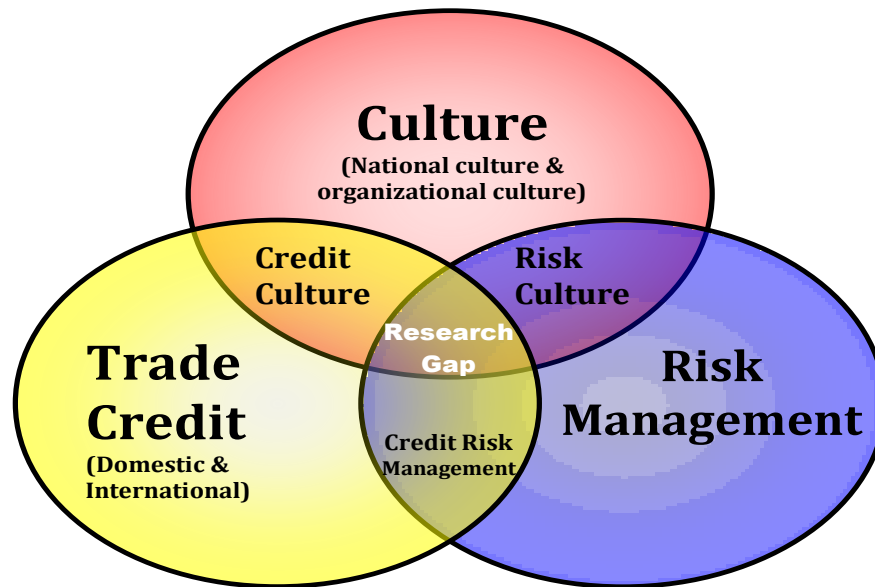
clusters, close ties and community enforcement sanctions. Similarly, Aaronson et al. (2004) found the existence of race-based differences in credit granting and the relative importance of ethnic- and geographic-based relationships differed between US ethnic groups, which actually signified the existence of sub-cultural differences in trade credit-related decisions. However, the data collected in these studies either is entirely based on domestic trade credit or does not specify whether the trade type is international or not.

The second research category emphasises the underlying role of credit culture, which has been defined as “the glue that binds the credit process and forms the foundation for credit discipline” (Strischek, 2004: 21); a life style which regulates credit behaviour (Gao, 2007); values and codes of conduct which interact with and penetrate economic activities (Shi & Li, 2003); or a reflection of credit which includes credit knowledge, values and customs (Chen, 2006). Some authors examined the influence of traditional national cultural values on credit culture, such as the role of collectivism on the Chinese credit system (Qu, 2007), the values of kinship, personal integrity and self-discipline on the relationship-oriented credit culture in China (Tu, 2004; Gao, 2007), the human nature orientation on credit risk control (Gao, 2007), the perception of character traits (honesty, punctuality, sobriety, and thrift) together with gender and race on the risk assessment of trade credit in American business history (Olegario, 2006). Other authors, working at the level of organisational culture, discussed the essential role of credit culture in strategic CRM, mainly from the viewpoints of the banking industry (Strischek, 2004; Treacy & Carey, 2000; Nolan, 2010; Richard et al., 2008; Wahlström, 2009).

### **3.3 LITERATURE REVIEW SUMMARY (ITCRM ASPECTS)**

It can be safely concluded from the above literature review that ITCRM researchers have largely disregarded cultural factors. Although strategies have been developed to identify, estimate and control ITCR, most of the studies focus on tackling external causes or technical failures, despite the recognised importance of culture in implementing risk management strategies. As illustrated in Figure 3-1, although there are a few studies examining the links between culture and risk management or trade credit, none of these have discussed the impact of culture on the suppliers’

management of trade credit risks, not to mention from the perspective of international trade. Therefore, this research project aims to fill the gap in the current literature and discuss the interplay between culture and ITCRM. This area has not been well researched generally, in particular from the perspective of culture and international business.



**Figure 3-1 Literature Review and Research Gap in Trade Credit, Risk Management and Cultural Studies**

Although there are some controversies in current theories regarding culture and the processes of CRM, extant research provides a preliminary understanding before getting to the data, and offers a wide foundation for labelling codes, identifying themes, and clarifying the relationships among patterns during the stages of data analysis and theory building. Despite the debates around the cross-cultural comparative approach, extant studies (Hofstede, 1980, 1991; Hofstede, Hofstede & Minkov, 2010; Trompenaars and Hampden-Turner, 2012; House et al., 2004; Leung et al., 2002) still grant insights when interpreting the interaction between culture and ITCRM. Moreover, the cultural dimensions revealed in these studies offer a point of departure from which intra-cultural variations can be further explored and investigated. In terms of ITCRM, although the risk management frameworks summarised in Table 3-1 are not specialised for managing trade credit risks, and there are some inconsistencies regarding the steps and processes of credit risk

management as summarised in Table 3-2, these frameworks provide us with the overarching principles of CRM processes, from which the detailed CRM processes in the international business context can be further refined and built.



## **CHAPTER 4 LITERATURE REVIEW PART III**

### **CHINESE CULTURAL CONTEXT**

Given that this study focuses on ITCR in China, there is a need to momentarily pause and review the nature of Chinese culture. Cross-cultural comparative studies normally take the universal cultural perspective and use an “imposed etic” approach (Zhu & Bargiela-Chiappini, 2013: 382). These studies focus on more than one culture, and usually involve cross-sectional comparisons to find similarities and differences between for example, Chinese culture and other cultures, based on a multi-setting survey. The cultural dimensions are normally derived from the westerner’s cultural views and have been deployed in the study of Chinese culture (Berry 1989). In contrast, some other studies take the indigenous insider’s perspective and generally use an in-depth emic approach (Zhu & Bargiela-Chiappini, 2013; Morris et al., 1999). These studies generally concentrate on only a particular society such as Chinese culture, and focus on the cultural phenomena in specific, local cultural terms (Buckley et al., 2014). Detailed accounts of a particular culture are normally provided through careful, internal exploration of that culture (Stankov & Lee, 2009). This chapter reviews Chinese cultural context from both cross-cultural comparative perspective and indigenous insider’ perspective, followed by an exploration of recent Chinese cultural changes, including credit risk-related culture.

#### **4.1 CROSS-CULTURAL COMPARATIVE STUDIES REGARDING CHINESE CULTURE**

China is normally viewed as a collectivistic, long-term oriented, restrained country with high power distance, low uncertainty avoidance, and relative male-dominance (Hofstede, Hofstede & Minkov, 2010). It is seen as particularistic, subjugated to externalities, with diffuse relationship and tactful ambiguous communication (Trompenaars & Hampden-Turner, 2012; Hall, 1976). With high power distance and collectivism characteristic in Chinese culture, less powerful members of the culture are more likely to accept paternalistic power relations and more hierarchical organisations, and people tend to act predominantly as members of life-long cohesive groups (Hofstede, Hofstede & Minkov, 2010). The Chinese are regarded as risk-takers with very

low uncertainty avoidance. They are more likely to accept unstructured situations, and to be more pragmatic and tolerant of changing environments. With their very long-term orientation, they place greater stress on persistence, saving and the capacity for adaptation (Hofstede, Hofstede & Minkov, 2010). In Chinese particularistic culture, people give greater attention to the specific obligations of relationships and unique circumstances rather than to abstract universal societal rules and rigid legal contracts (Trompenaars & Hampden-Turner, 2012). They also tend to exhibit a flexible rather than a dominating or aggressive attitude and are willing to compromise in order to keep harmony and peace (Trompenaars & Hampden-Turner, 2012).

In contrast, some cross-cultural comparative research has produced remarkably divergent results regarding Chinese cultural values. For example, while Hofstede et al. (1980, 1991, 2010) regarded China as a collectivistic and long-term oriented culture with very low uncertainty avoidance, the GLOBE study found that Chinese culture is relatively individualistic, short-term oriented, with comparatively high uncertainty avoidance. Even within the GLOBE study itself the correlations between social practices and social values are significantly negative for seven out of nine dimensions (House et al., 2004). Hofstede (2006: 893-895) claims that the GLOBE study does not reflect respondents' minds because the questionnaire items are too abstract and thus the questions "may convey hidden meanings" and surpass the limits of respondents' "capacity for processing information". Others such as Maseland & van Hoorn (2009) argue that the values-based survey conducted by the GLOBE study actually measures the "marginal preferences" of societies rather than "total preference weights" for most of the dimensions (Brewer & Venaik, 2010: 1316). Table 4-1 compares the results regarding Chinese values and practices along different cultural dimensions, based on the scores and rankings of the three major cross-cultural comparative studies summarised in Appendix A, Appendix B, and Appendix C.

**Table 4-1 Chinese Culture Comparisons under Three Major Cross-cultural Studies**

<b>Hofstede (1980, 1991), Hofstede, Hofstede and Minkov (2010)</b>	<b>House et al. (2004) -GLOBE study</b>		<b>Trompenaars and Hampden-Turner (2012)</b>
	Societal Culture Practices (As Is)	Societal Culture Values (Should Be)	
High power distance	Power distance medium to low	Relatively high power distance	
Collectivistic	Collectivistic	Medium-low collectivistic	Collectivistic
Gender almost equal, but relatively male-dominated	Male relatively dominated; medium-low assertiveness	Very Male dominated; Very high assertiveness	
Very low uncertainty avoidance, risk-takers	High uncertainty avoidance	High uncertainty avoidance	
Very long-term oriented	Medium-low future oriented	Very Low future-oriented	Long-term oriented
	High performance oriented	Medium-Low Performance oriented	Achievement and ascription almost balanced
Restrained culture			Neutral
	Medium to high humane oriented	Medium to low humane oriented	
			Particularism
			Subjugated to nature rather than control
			Diffuse relationship

The World Values Survey (WVS), another cross-cultural comparative research into cultural values, incorporates China as part of the Confucian culture zone, together with Japan, South Korea and Taiwan (Inglehart, 1994). It reports that the Chinese have high levels of secular-rational values which place less emphasis on religion, traditional family values and authority, and have relatively medium-high levels of survival values which place greater emphasis on economic and physical security (Inglehart et. al, 2004).

Cross-cultural comparative studies also show that people from the Chinese culture have a propensity to make external attributions and hold beliefs of an external locus of control. Leung and Bond (2004) found that Chinese tended to believe more strongly in fate control than Americans. Morris and Peng (1994) examined the cultural differences in causal attribution tendency, and found that when making attributions for social events, Chinese individuals tended to make more external attribution than American individuals. This is because making internal attributions is chronically accessible in the United States where, for example the media is more likely to attribute an event to internal factors, whereas making external attributions is chronically

accessible in China in that the Chinese media is more likely to attribute an event to external factors and the environment (Morris & Peng, 1994; Hong & Mallorie, 2004).

Again, in contrast, other cross-cultural studies (Au et al., 2012; Chaturvedi, Chiu & Viswanathan, 2009; Leung et al., 2002) argue that when compared with the United States, the belief in a “negotiable fate” is more prevalent in mainland Chinese contexts where individuals face many constraints in the pursuit of their goals. Whereas past studies contended that individual control and fate compete with each other as life views (e.g. Kluckhohn & Strodtbeck, 1961), a belief in negotiable fate holds that individuals can negotiate with fate for control. Those who embrace the notion of negotiable fate focus on the ability to maximise gains and minimise losses under the acknowledged circumstances and within the boundaries of life events that are predetermined. That is, individuals can acknowledge the authority of fate over personal outcomes without an accompanying sense of helplessness; therefore, they will still actively engage in coping and hold a positive self-view about their capacity to make the best of a situation (Chaturvedi, Chiu & Viswanathan, 2009; Leung et al., 2002; Au et al., 2012).

## **4.2 CHINESE TRADITIONAL AND MODERN CULTURE**

### **4.2.1 Chinese Traditional Native Culture**

Traditional Chinese culture is the complex product of not only its political and social history, but also of three powerful philosophical systems: Confucianism, Daoism, and to a lesser extent, Buddhism (Gannon, 2004; Martinsons, 1996; Pun, Chin & Lau, 2000). Confucianism stresses the promotion of virtues, the persistence of hierarchy, and the maintenance of social harmony. Five fundamental virtues advocated by Confucianism are *ren* (humaneness or benevolence), *yi* (righteousness or justice), *li* (propriety or etiquette), *zhi* (knowledge or wisdom) and *xin* (integrity or trustworthiness) (Gannon, 2004; Pun, Chin & Lau, 2000). In contrast to Confucianism which advocates action and intervention (Martinsons, 1996), Daoism seeks to be consonant with the universe, let behaviour flow spontaneously, and strike a balance between interacting opposites and dynamic changes (Peng & Nisbett, 1999; Huang, 2009).

Some researchers hold that cultural traits inherited from these traditional philosophical systems, such as '*guanxi*' (relationships or connections), '*mianzi*' (or face, a mixture of social status, propriety and prestige), 'harmony', 'indirectness', 'hierarchy', 'reciprocity', 'deference to age', '*renqing*' (reciprocal obligation and empathy), and '*yiqi*' (brotherhood, personal loyalty & obligation), are still pervasive in modern Chinese society (Redding et al., 1994; Lewis, 2007; Wong, 2001).

For example, '*guanxi*' (interpersonal relationships or connections), which has been regarded as one of the most important key success factors in doing business in China (Yeung & Tung, 1996; Ambramson & Ai, 1999; Bedford, 2011), is rooted in Confucianism social theory (Luo, 2001; Zhou, Wu & Luo, 2007) and represents the typical Chinese national identity (Davies et al., 1995; Su & Littlefield, 2001). Guanxi is regarded as essential in developing social capital, gaining access to valuable resources, obtaining reliable information, and minimising risks (Law et al., 2000; Pearce, 2000; Fu, Tsui & Dess, 2006; Ying, 2007). Some researchers such as Bond (1986) even consider that Chinese culture can be considered neither individualistic nor collectivistic but relationship-based.

Guanxi operates more from a particularistic rather than universalistic perspective. Outsiders are generally treated differently from insiders (those who are within the social networking through long-term close relationship) and people give greater attention to the obligations of specific relationships (Wang, 2007). Different typologies of guanxi has been classified: for instance, personalised affect-driven expressive ties, impersonal instrumental ties, and the mixed tie (Hwang, 1987); '*sheng-ren*' and '*shou-ren*' guanxi (Yang, 1993); obligatory, reciprocal, and utilitarian guanxi types (Zhang & Zhang, 2006); favour-seeking guanxi and rent-seeking guanxi (Su and Littlefield, 2001); family guanxi, helper guanxi and business guanxi (Fan, 2002); as well as helper, business, working and backdoor guanxi (Bedford, 2011). Individuals practice these diverse guanxi types in different ways with a range of rules of exchange and underlying values (Wang, 2007; Bedford, 2011).

The social process surrounding guanxi operation is dynamic rather than static (Yang, 2002; Bedford, 2011). Through one single type of guanxi, one can get access to a much wider network of connections (Fan, 2002; Yang & Wang, 2011) and with more connections, one can access

greater opportunities for interaction privileges and benefits, such as to secure rare resources, obtain business opportunities, or reduce transaction costs (Fan, 2002; Davies et al., 1995; Fan, 2007).

Several Chinese traditional cultural values like *renqing*, *mianzi*, *yiqi*, harmony, and reciprocity, which also have roots in Confucianism, are considered to be closely associated with the notion of *guanxi* according to many studies (Barnes, Yen & Zhou, 2011; Yen, Barnes & Wang, 2011; Yang & Wang, 2011; Chen & Chen, 2004; Wang, 2007; Jian & Murphy, 2010; Wang, Siu & Barnes, 2008; Leung et al., 2008). These studies suggest that the single-dimensional definition of *guanxi* should be extended and upgraded by employing a multi-dimensional approach. Essentially, the key to managing *guanxi* at the interpersonal level of, or the interfirm level of, relationships is to maintain a balance among the different elements.

Harmony, advocated by Confucian doctrines, is also one of the most fundamental traditional values in China (Zhang & Zhang, 2013). In Confucianism, everyone should take their proper position in interpersonal relationships and social networks to maintain social harmony (Chen & Chen, 2004; Wong & Leung, 2001). In the interaction of the *guanxi* network, people avoid any activities that will jeopardise harmony, such as direct confrontation in conflict and disputes (Wong, 2010; Gold, Guthrie & Wank, 2002; Leung, 2008).

*Ren* in Chinese literally means forbearance or tolerance and is another Chinese core value. It is closely linked with harmony and promoted by the three major traditional philosophical streams in China (Confucianism, Daoism, and Buddhism). Forbearance is inward-oriented and describes a psychological process regarding how an individual deals with the difficulties in life, and solves problems through spiritual and internal methods (Kaempfer, 2006). This approach holds that people should refrain from needless striving because no human actions can change the universal way. It suggests that if others hurt us, rather than seeking to change outside society, we just have to bear it patiently (Pan & Yu, 2001; Cheung & Chan, 2005). *Ren* is also a fatalistic value, a religious quality promoted by Buddhism and Daoism, which focuses on endurance and the acceptance of fate (Kaempfer, 2006).

Forbearance implies a tendency to minimise or conceal personal concerns and suppress personal needs in order to maintain interpersonal harmony and not burden others (Wei et al., 2013; Moore & Constantine, 2005). Chinese are regarded as being reluctant to explicitly ask for support from others, or share personal problems with others, in order to avoid causing others to worry about them, and to lessen any interpersonal conflict (Yeh, Arora & Wu, 2006; Kim, Sherman & Taylor, 2008). Chinese are more likely to demonstrate a strong conflict-avoidance tendency, especially when interacting with people who have good *guanxi* with them, and tend to tolerate any disagreements in order to avoid destroying harmony—at least on a superficial level (Gabrenya & Hwang, 1996; Zhang & Zhang, 2013).

Several other contemporary cultural traits are also regarded as having their roots in Chinese traditions, such as the belief in an external locus of control through luck and fate (Goodman, 1995; Gannon, 2004), dogmatism (Goodman, 1995), obligation and reciprocity (Hwang, 1987), and high identification with in-groups (Chinese Culture Connection, 1987). The Chinese characteristic of not being religious but nevertheless being superstitious is seen as having traditional roots (Wong, 2001), as is a focus on intuition, personal trust and implicit communication (Bond, 1988; Martinsons, 1996).

#### **4.2.2 Chinese Cultural Change: Tradition or Modern?**

Since China have experienced dramatic social, political and economic changes over the past several decades, some scholars propose that it is important to understand the Chinese changing cultural context, especially for people engaging in international transactions with this country (Selvarajah & Meyer, 2008). However, studies regarding whether Chinese still maintain traditional culture such as Confucian values concluded with divergent results.

Some researchers contend that Chinese traditional cultural values like *guanxi* and harmony are still important in modern social and business life in China (Law et al., 2000; Pearce, 2000; Fu, Tsui & Dess, 2006; Ying, 2007). For example, Ying (2007) contends that despite its rapid transition to a market economy, China remains a hierarchical, relationship-based society with an emphasis on *guanxi* and associated values such as *ganqing*, *renqing*, *mianzi*. By recognising the

importance of more than 60 million expatriate Chinese and their impregnable ties with Chinese international business, some scholars further propose that regardless of their country of residence, expatriate Chinese preserve the characteristics of their traditional culture, including conservative and high-context behaviour; family, kinship or clan affiliations; personal connections; thrift and saving; diligence; obedience to patriarchal authority; perseverance and patience (Gannon, 2004; Buckley et al., 2007; Paul & Alan, 1993; Ahlstrom et al., 2004).

Others argue that Chinese cultural change is inevitable and has already been driven by economic development, globalisation, foreign direct investment and socialism (Kwon, 2012). For example, with the influence of political philosophies of socialism and communism, Chinese culture has shifted away from Confucianism towards egalitarianism (Dong & Liu, 2010; Lin & Ho, 2009). A market-oriented economy and the competitiveness of firms have overridden the traditional value of harmony within groups (Dong & Liu, 2010). Foreign direct investment has also brought significant changes to Chinese cultural values, especially around the cultural dimensions of future orientation, performance orientation and in-group collectivism (Jiang, Chen & Liu, 2010).

Still other researchers report that the rapid economic and political transformations have brought about inter- and intra-cultural diversity within the Great China Region. For example, despite originating from the same cultural roots, the cultural characters and ethical principles of people from mainland China, Taiwan, and Hong Kong have varied in their adherence to Confucian values (Lin & Ho, 2009; Wallace, 1970).

Intra-cultural variations also exist within the mainland China. For example, Selvarajah and Meyer (2008) revealed that even with political and social changes in the last 60 years, Chinese beliefs in Confucianism were still highly valued; however, there was a significant intra-cultural diversity, in which managers with different generations and in different types of companies demonstrated different leadership values. Furthermore, more economically developed and liberalised cities like Shenzhen, were associated with higher individualism, higher uncertainty avoidance and greater short-term orientation. Factors such as latitude, political dogma, income and economic exchange have also led to intra-cultural variations in China (Kwon, 2012).



Different from research discussing how Chinese culture has shifted from one value orientation to another, some studies even adopted a ‘both-and’ rather than an ‘either-or’ approach (Faure & Fang, 2008; Fang, 2003). It is suggested that the values and attitudes of people in China have experienced revolutionary changes with the co-existence of both tradition and modernity, especially for the new generations who possess both western and eastern values (Farh et al., 1997; Ralston et al., 1999). Faure and Fang (2008) further argue that the cultural change in China does not signify that the Chinese traditional value system has been replaced by a new modern system, but the interaction produces contradictory, paradoxical and opposite values co-existing simultaneously with integration and dynamism. Cultural interaction pits, for example, guanxi against professionalism, the importance of face against self-expression and directness, thrift against ostentatious consumption, family and group orientation against individualism, long-term orientation against short-term orientation. Therefore, although Chinese culture has experienced significant changes; nevertheless, it still maintains the dialectic thinking process of the yin-yang approach to manage paradoxes (Faure & Fang, 2008).

## **4.3 CREDIT RISK-RELATED CHINESE CULTURE**

Extant literature provides some overview of the impact of national culture on risk perception, risk management, credit culture and credit decisions in China.

### **4.3.1 Risk, Risk Management and Chinese Culture**

Some research explored the effects of national cultural values on risk perception and risk preference, normally through cross-cultural comparisons. For example, Bontempo, Bottom and Weber (1997), Weber and Hsee (1998), and Hsee and Weber (1999) found that when compared with Americans, Chinese were significantly less risk-averse in the economic field and in money-related risk decisions. This is due to a cultural effect described as the “cushion of collectivism”, which allows Chinese to be more risk tolerant because they receive financial and other support through strong interdependent social networks even when their risk taking has led to failure (Weber & Hsee, 1998: 1215; Li & Xie, 2007). Some also consider that as China is a developing country with booming economic development, abundant opportunities and fewer

restraints, risk takers can normally gain more interests than in more developed economies (McDaniel & Gregory, 1991; Zhou & Hang, 2011).

The Chinese are also found to have less precise probabilistic thinking and probabilistic judgment in terms of uncertainty (Phillips, 1980; Yates, Lee & Bush, 1996). Some research explores risk and the risk management culture in Chinese organisations, but mainly from the perspective of banking credit (Ke, 2009; Liu, 2009; Zhao, Zou & Gao, 2010; Richard, 2008; Wahlström, 2009; Laeven & Levine, 2009; Department of Asset Risk Management of ICBC, 2003; Du, 2009).

#### **4.3.2 Chinese Traditional Credit Culture**

Traditional Chinese credit culture is entrenched in principles of social ethics and morality. The meaning of credit is equivalent to the compound word ‘xin-yong’ in Chinese. The first part, ‘xin’, refers to the trustworthiness of a person, with an emphasis on sincerity and integrity; and the second part, ‘yong’ refers to use or apply (Chua, Morris & Ingram, 2009). In Confucianism, ‘xin’ is included as one of the five essential virtues; a basic behaviour principle in relationships with friends (Tu, 2004). Ancient Chinese philosophers including Confucius, Mencius and Mozi all regarded ‘credit’ as the core principle of people’s conduct; the virtue of self-cultivation, considered even more important than human life (Tu, 2004; Gao, 2007).

Traditional credit culture is people-oriented based on *guanxi* (interpersonal relationships) and social networks (Tu, 2004). Because of the value placed on “familial collectivism”, credit and trustworthiness is limited to relatives, neighbours or friends with kinship, geographic or relationship ties (Chua, Morris & Ingram, 2009: 491). Trust is generally difficult to build beyond circles of kinship or closely knit social networks (Chow, 2008). Trust relationships in China are hierarchical; that is, the extent of trust or creditworthiness extended to an individual depends greatly on their embeddedness within a network (Chua, Morris & Ingram, 2009; Tu, 2004).

Whereas western institutionalised credit practices focus on contractual relations, Chinese credit relations emphasise self-discipline which constrains opportunism through a sense of honour, conscience and personal integrity realised by people internally (Chow, 2008; Tu, 2004). Chinese credit culture focuses on self-discipline while ignoring external control and legal rules, because Confucian values regard human nature as goodness (Liu, 2008b). Furthermore, traditional Chinese

credit culture focuses more on ‘yi’ (the importance of sacrificing self-interests to honour obligations) rather than pursuing ‘li’ or profit alone. Therefore, credit culture is more associated with the spiritual realm with regard to reputation or ‘mainzi’ (face). The legitimacy of pursuing one’s own profits and interests is downplayed (Tu, 2004; Gao, 2007).

#### **4.3.3 Chinese Credit Culture: Traditional or Modern?**

As China develops towards an increasingly market-driven economy, it can be questioned whether today’s Chinese managers are more likely to employ guanxi-based credit relations or more formal contractual relations. Empirical evidence informing this issue is mixed. Guthrie (2001), Dieleman and Sachs (2006) argue that with the development of legal institutions, Chinese firms are now less likely to use informal, network-based practices but rely more on formal international practices. In contrast, others found that the closeness of socially embedded personal relationships still plays a critical role in contemporary Chinese credit decisions. More specifically, creditworthiness evaluation, trust development, and granting of credit are still based more on socially embedded personal rapport than formal contracts (Long & Zhang, 2011). For example, Boisot and Child (1996) claimed that due to the ambiguity of the institutional systems and the enduring tradition of ‘guanxi’ in business, Chinese managers still tended to informally manage risks on the basis of personal networks rather than rely on formal legal contracts.

Realising the conflict between traditional culture and the market economy, many Chinese scholars suggest that the prevalence of credit relations based on kinship has inhibited contractual relations. These researchers argue that it is pressing for China to transform from relationship- to contractual-oriented credit culture (Wang, 2008; Zhang & Pan, 2007; Gao, 2007; Tu, 2004). Although the credit environment based on a self-regulatory mechanism and collective punishment has worked well in a self-sufficient peasant economy and during the initial stages of the market economy, the practice has become ineffective in today’s complex and efficient market economy (Qu, 2007; Zhou & Hang, 2011). Especially for private enterprises, which frequently practice family-dominated management and discriminatory trust based on relational proximity, is considered essential to transform to a more formal contractual-oriented business practice (Wang, 2008; Zhang & Pan, 2007).

One proposed strategy of credit culture change includes circumventing cultural comparative disadvantages (Zhou & Hang, 2011). Another strategy involves stressing several elements to drive cultural adaptation, including internal factors such as strategic objective adjustment, as well as external factors like government support and institutional improvement (Wang, 2008; Tu, 2004; Gao, 2007; Wan & Huang, 2004; Wei & Liu, 2003; Chen, 2006). These approaches provide some insights into the current situation of Chinese credit culture and suggest potential methods of cultural adaptation.

#### **4.3.4 Trust-related Chinese Culture**

Since there are interweaving links between trust and credit decisions as discussed in the second part of the literature review (Chapter 3), the following section reviews the literature regarding trust behaviours in the Chinese cultural context.

Trust can be described as one party's confidence that the other party will perform actions in the pursuit of joint benefits without exploiting another's vulnerabilities. It also implies that a party will have the credibility, reliability and expertise to effectively perform tasks (Anderson & Narus, 1990; Doney & Cannon, 1997; Wu et al., 2007). Trust shows a willingness to be vulnerable toward the other party despite uncertainties regarding motives, intentions, and prospective actions (Chua, Ingram & Morris, 2008; Dyer & Chu, 2000; Mayer, Davis & Schoorman, 1995).

In business relationships, trust can lower the cost of transactions and create a higher level of interdependence between partners (Anderson & Narus, 1990; Morgan & Hunt, 1994; Doney & Cannon, 1997). It can also promote both parties' cooperation and information exchange, serve as a bilateral mechanism governing both parties' behaviour through commitment and investment (Aulakh, Kotabe & Sahay, 1996; Morgan & Hunt, 1994; Dyer & Singh, 1998), and minimise the risks of opportunistic behaviour over a long-term exchange (Dyer & Singh, 1998). In particular, regarding the exporting manufacturer-foreign distributor relationship, Wu et al. (2007) found that trust is an effective way to curtail distributor opportunism. More specifically, a higher level of trust between the exporting manufacturer and foreign distributor is associated with a lower incidence of distributor opportunism.

Some studies show that collectivistic cultures like China, with an emphasis on strong in-group ties and long-term relationships, are often presumed to have a stronger predisposition for trust, especially toward in-group members (Johnson & Cullen, 2002). For example, the WVS demonstrated that compared with other cultures, China had almost the highest levels of general trust. However, alternative theoretical reasoning and empirical evidence suggests the opposite (Yamagishi, Cook & Watabe, 1998; Zhang, 1990, Zhang & Bond, 1993). Studies show that since individualistic cultural orientations are more positively related to trust predisposition, Chinese typically demonstrated a lower level of trust for in-groups members than individualistic countries like US (Zhang, 1990; Inglehart et al., 2004).

In addition to *ganqing* and *renqing*, trust is regarded as one of the most important and indispensable components of *guanxi* and effective business relationships in China (Tsang, 1998). Trust underlines the embeddedness of one's *guanxi* network; the higher the levels of trust, *ganqing* and *renqing*, the better the *guanxi* will be and the better the interdependence, coordination and cooperation between two parties (Chen & Chen, 2004). In a *guanxi* network, trust relates more to the interpersonal dynamics rather than inter-firm trust, and signifies credibility and trustworthiness between individuals (Chen & Chen, 2004). Similar to *guanxi* and *ganqing*, trust takes time and effort to build among members of the network, through repeated exchanges of favours, and social activities (Wong & Chan, 1999).

There is a distinction between cognition- and affect-based trusts (McAllister, 1995). Cognition-based trust arises from one's judgment of the other party's competence and reliability (Butler, 1991). For instance, the evidence about a foreign buyers' past transaction history, payment history and financial record in international trade credit decisions may influence cognition-based trust. Affect-based trust arises from one's caring sentiments, affection and concern for the other party's benefits and interests, and is grounded on the principles of reciprocal obligations (McAllister, 1995).

Affect- and cognition-based trust is found to be highly intertwined in Chinese network relationships, in contrast to those of their American counterparts (Chua, Morris & Ingram, 2009). Since *guanxi*, *ganqing* and *renqing* continue to play a prominent role in the contemporary Chinese business context, trusting business relationships in China tend to integrate affective bonds with

instrumental economic exchanges. That is, Chinese are more likely to simultaneously develop affect- and cognition-based trust in their business relationships (Chua, Morris & Ingram, 2009).

Studies also show that Chinese executives trust their overseas partners differently, depending on the partners' cultural ethnicity and cultural similarity. With the investigation of the inter-cultural and intra-cultural trust in the international business context, and networking (*guanxi*) dynamics in China, Jiang et al. (2011) found that Chinese exhibited higher affect-based trust in overseas partners of the same cultural ethnicity as themselves. Cognition- and affect-based trust also appeared to be linked differently for overseas partners of the same and different cultural ethnicity. The two types of trust are more tightly intertwined in same-culture business relationships than in different-culture relationships.

#### **4.4 LITERATURE REVIEW SUMMARY (CHINESE CULTURAL ASPECTS)**

Chinese traditional native culture has normally been viewed to have its origins in Confucianism and Daoism. It is characterised by the cultural values of *guanxi*, *mianzi*, *renqing*, harmony, forbearance, family-oriented collectivism, and high power distance. However, whether these traditional values still play dominant roles in contemporary Chinese business remains unknown.

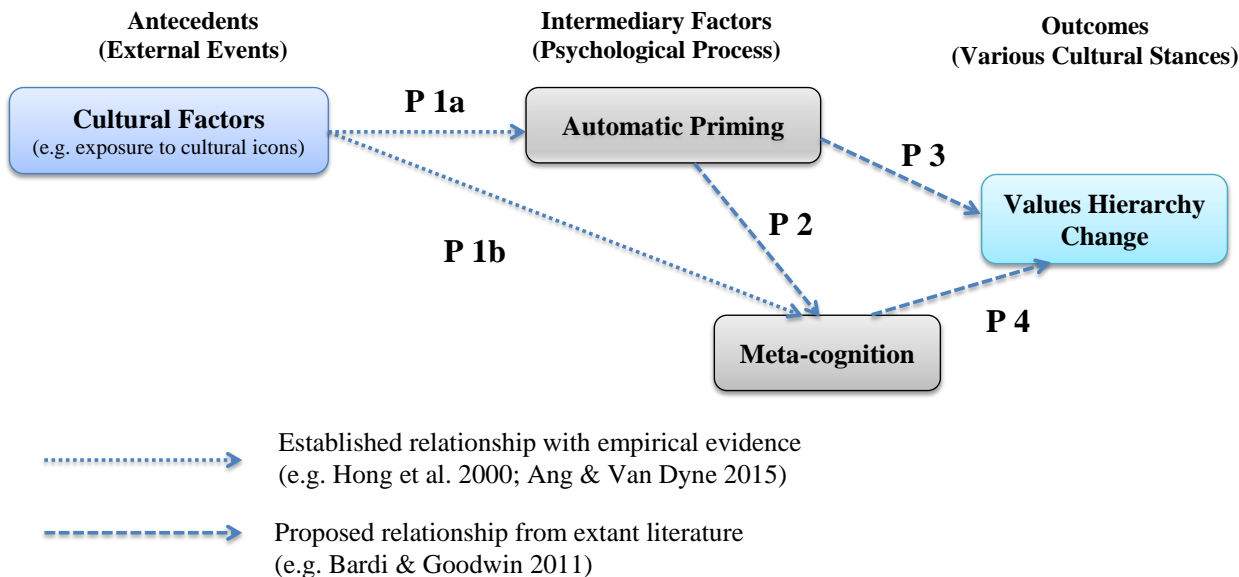
Results produced by major cross-cultural comparative etic studies regarding Chinese cultural values and practices are somewhat divergent and contradictory, especially in terms of the dimensions of collectivism, uncertainty avoidance, and long-term orientation. Nevertheless, the cultural dimensions drawn from these etic studies, as well as Chinese cultural attributes discussed in emic studies, are still useful in the stages of data analysis to develop codes, reveal categories and explore relationships.

Some studies contend that Chinese credit and business relationship is people-oriented based on *guanxi*, with a focus on self-discipline and affect-based trust, and suggest some strategies for cultural adaptation, but no further implications for Chinese companies' CRM in international business context have been explored. Nevertheless, this literature grants insights into the traditions

and evolution of Chinese native culture and credit risk-related culture, and provides a cultural context for this research.

### 4.5 CONCLUSION OF LITERATURE REVIEW

As a conclusion in Chapter 2, the author presented the following process model:



**Figure 2-1 A Proposed Process Model of Intra-individual Values Change (Literature-based)**

How, though, is that proposed model of intra-individual values change from Chapter 2 related to Chapters 3 and 4 of the literature review? Chapter 3 provided an overview of the ITCRM literature, and thereby provided concepts useful for later empirical analysis as the author works toward findings that address the primary research question: *In what ways do culture and international trade credit risk management of local SME suppliers interact with each other in China?*

So the link between the proposed model and Chapter 3 is that the author intends to uncover and map the ways in which various cultural stances adopted by local SME suppliers (the outcome of the process model) explain the ITCRM practices of those suppliers. In other words, Chapter 3 points toward an extension of the process model – an extension which will connect the process model with important practical outcomes.

Chapter 4 provided an overview and discussion of research findings and current theory concerning the characteristics of Chinese culture. It was readily apparent that there is a great deal of contradiction and uncertainty within that literature. Nevertheless, it is Chinese culture that forms the background against which various cultural stances adopted by local SME suppliers has to be detailed, understood, and typed. In conclusion then, all three chapters of the literature review contribute to an initial analytical framework and a set of presumed relationships (Saunders, Lewis & Thornhill, 2009: 500); thereby enhancing the researcher's "theoretical sensitivity" as she engages in an interpretive analysis of the empirical data. More needs to be said about how that data will be collected and analysed, so next chapter turns now to methodology.



## **CHAPTER 5 RESEARCH METHODOLOGY**

### **5.1 JUSTIFICATION OF METHODOLOGY: MULTIPLE QUALITATIVE METHODS WITHIN CRITICAL REALISM**

The methodology for this research adopts an inductive-dominated approach, based on qualitative field data within a philosophical perspective of critical realism. This chapter explains the reasons for selecting this methodology.

Research philosophy provides the over-arching assumptions underpinning research strategy and methods. The essential assumption of realism as a research philosophy is that “what the senses show us as reality is the truth” (Saunders, Lewis & Thornhill, 2009: 114). There are two streams of realism, direct realism which focuses on observable phenomena through providing credible data and facts, and critical realism which claims the object is interpreted through “social conditioning” and focuses on explaining a phenomenon within a context (Saunders, Lewis & Thornhill, 2009: 119). Direct realism suggests that the world is relatively unchanging; while critical realism holds the position that the social world is constantly changing (Saunders, Lewis & Thornhill, 2009). Therefore, critical realism is much more in line with the purpose of this research, which aims to arrive at an informed and perspicacious understanding of the interplay between culture and ITCRM in China as a foundation for recommending change.

Under the broad philosophical orientation of realism, this study acknowledges that the methods chosen must fit the research questions and subject matter (Saunders, Lewis & Thornhill, 2009). What then, is the fit between critical realism and its associated qualitative research methods, and the subject matter of this thesis?

Firstly, the dearth of existing literature and theories examining the interaction between culture and ITCRM legitimises the necessity of qualitative research. Although there are some extant studies regarding CRM of domestic trade from the technical and financial perspective, studies investigating CRM in the context of international business and from the perspective of culture remain scant. Consequently, a qualitative approach could make a substantial contribution to open

the black box, and “go beyond the measurement of observable behaviour (the ‘what’), and explore the meaning and beliefs underlying action (the ‘why’ and ‘how’)” (Fan, Zhu & Nyland, 2012: 16; Buckley & Chapman, 1996; Marschan-Piekkari & Welch, 2004). Analysis of rich qualitative data could also help generate new conceptualisations, surface new cultural dimensions relevant to this study and offer new theoretical insights (Birkinshaw, Brannen & Tung, 2011; Doz, 2011). Therefore, at this stage of the research it is better to inductively analyse themes drawn from qualitative data and progressively build theories, rather than rely on predetermined given theories and risk generating a theoretical framework and set of hypotheses too early (Saunders, Lewis & Thornhill, 2009; Doz, 2011).

Secondly, the purpose of this research is to provide a thick contextualised description and explanation and an in-depth understanding of the interplay between culture and ITCRM in the international business context, rather than to statistically generalise scientific principles and discover predictive causal laws about the quantitative relationship between the factors or concepts (Saunders, Lewis & Thornhill, 2009; Neuman, 2011). Rich, thick description and explanation also allows researchers to support a theory by showing the applicability of, and illustrating the key elements or relationships of, the theory (Doz, 2011).

Thirdly, the assumption of culture as dynamic underlies this research because that assumption reflects the author’s view that the quantitative analysis employed in the cross-cultural comparative approach, which treats culture as a relatively static construct, is not suitable for this investigation. This is because one-off survey-based quantitative data is generally cross-sectional in nature and only takes a snapshot of culture at a particular point in time. In contrast, qualitative data such as that collected through field interviews can better provide longitudinal, rich and implicit information about the phenomenon, and in the process surface relevant beliefs and feelings (Taras & Steel, 2009; Triandis et al., 2001; Zhang, 2008).

Fourthly, many researchers have called for a paradigm shift from positivist research with its etic oriented quantitative approaches towards interpretive research with its emic oriented qualitative approaches, particularly for research regarding culture and international business (Doz, 2011; Birkinshaw, Brannen & Tung, 2011; Gertsen & S øderberg, 2011; Welch et al., 2011; Zhang, 2008; Morris et al., 1999). When confronting today’s complex, emergent and evolving cultural

phenomena across multiple borders, many scholars argue it is often more appropriate to engage in exploratory research or thick description focusing on theory building and hypothesis generation, rather than using “reductionist methods in the absence of well-developed theory” (Birkinshaw, Brannen & Tung, 2011: 574). Others such as Morris et al. (1999) and Lu (2012) further claim that although etic cultural studies may be useful for comparative analysis, they need to be corroborated through fieldwork and supplemented by an emic approach.

Fifthly, qualitative methods can play a crucial role in interpreting and explaining the complicated “plurality of contexts”, for example the cultural, international business, institutional, and economic settings. They can also contribute to understanding the increasingly complex cultural context through research into directly relevant topics such as frame-switching, multiculturalism, biculturalism, and cultural adaptation (Birkinshaw, Brannen & Tung, 2011: 574). Qualitative methods also allow researchers to surmount the limitations of a values-based survey employing quantitative analysis (Birkinshaw, Brannen & Tung, 2011), such as those found in the studies of Hofstede (1980, 2010) and House et al. (2004) which generated contradictory results for Chinese culture, as discussed in the third part of the literature review (Chapter 4).

Furthermore, this study employs integrated, multiple qualitative methods, not only to obtain the most complete data possible on the phenomenon, but also to increase research validity and the accuracy of conclusions (Hall & Rist, 1999; LeCompte & Preissle, 1993; Denzin, 1978). The multiple qualitative data collection through focus groups, interviews, field observation and document analysis, allows the researcher to ‘triangulate’ or verify findings concerning Chinese culture in the context of contemporary multi-dimensional international business; to probe into the Chinese intra-cultural variations and dynamic aspects of culture; and to examine the interactions of different layers of culture including values, beliefs, attitudes and practices (Taras & Steel, 2009; Birkinshaw, Brannen & Tung, 2011).

## **5.2 INDUCTIVELY-DOMINATED AND DEDUCTIVE-COMPLEMENTED ANALYTICAL PROCEDURES**

The procedures for data analysis in this thesis adopt an inductive-dominated and deductive-complemented approach. Since there is a scarcity of existing literature examining the interplay between culture and ITCRM, the inductive approach allows the researcher to commence the study by collecting and exploring the data without an overly predetermined theoretical or descriptive framework, to probe into the themes emerging from the process of data collection and analysis, and to build up theories and explanation that are adequately grounded in the data (Saunders, Lewis & Thornhill, 2009).

Nevertheless, the inductive-dominated approach is combined with some elements of the deductive analytic approach through the whole process of research question framing, research design, data collection, data analysis and interpretation. The deductive approach allows the researcher to link the study into the existing body of knowledge in the subject area and to identify the main constructs and concepts. It also provides the researcher with an initial analytical framework and presumed set of relationships (Saunders, Lewis & Thornhill, 2009). Thus it enhances the researcher's "theoretical sensitivity" (Strauss, 1987: 21). For example, during the data analysis, some codes and data categories are informed by existing theories, such as the code labelled "uncertainty avoidance", which is a cultural values dimension derived from theory developed by Hofstede (1980).

## **5.3 SCOPE OF THE RESEARCH**

The research scope is limited to Chinese suppliers working in SMEs due to the following reasons.

Firstly, the impact of culture on risk management and trade credit is particularly pertinent in the case of SMEs rather than larger companies. Watt (2007) pointed out that because of multifunctional management and the lack of specialised risk management departments and professionals, key executives (owners or key managers) generally determine the strategic orientation of SMEs and are involved in risk management decisions closely, routinely, and

actively. Therefore, the impact of culture on the values and assumptions of key executives may be stronger and thereby provide significant insights into the risk taking and risk management practices of SMEs rather than large firms (Kreiser et al., 2010; Covin & Slevin, 1991; Lumpkin & Dess, 1996).

Secondly, culture is likely to play a more important role in lending decisions when organisations are presented with unclear, equivocal financial information which is insufficient to facilitate a definitive decision (Maznevski et al., 2001). This is often the case in SMEs because they normally have less access to the credit-worthiness ratings of foreign buyers, therefore the reliance of SME managers on ‘soft information’ collected through interpersonal contacts and relationship building is much stronger than is the case for managers in larger organisations (Berger & Udell, 2002). Pridotkienė, Snieška and Snieškienė (2006) further supported this argument and indicated that exporters should use statistical models in credit assessment only if local suppliers have sufficient information about foreign buyers.

Thirdly, SMEs play an indispensable and dominant role in every country’s economic development, labour employment and foreign exchange revenue. SMEs comprise about 90% of the total number of enterprises around the world. In China, SMEs have become one of the most important groups in Chinese foreign trade, and their exports account for a significant part of total Chinese exports (China Ministry of Commerce, 2011).

Fourthly, compared with large multinational enterprises, SMEs are generally smaller in scale, poorer in risk-resisting ability, weaker in international competitiveness, and accordingly more vulnerable to ITCR (Zhou & Hang, 2011). Therefore, it is more epistemologically appropriate to analyse this problem from the perspectives of SMEs.

## **5.4 RESEARCH SITE**

The research site is located in Zhejiang, China, because Zhejiang’s significant economic background makes it relevant for this study. Since 2009, China has become the world’s biggest merchandise exporter. It has overtaken the US to become the world’s largest trading country

(United Nations, 2014). In 2013, China's exports reached USD 2,209 billion, with a year-on-year growth of around 8%, and the total merchandise exports accounted for 11.74% of world total exports (MOFCOM, 2014; World Trade Organisation, 2014). SMEs were one of the most important groups in Chinese foreign trade, and by 2011, they accounted for over 58% of Chinese GDP and 68% of total Chinese exports (China Economic News Network, 2013).

Zhejiang is one of the most developed Chinese provinces in terms of export-oriented SMEs. In 2013, total exports in Zhejiang reached USD248.79 billion, which accounted for 11.25% of total Chinese exports (Chinese Ministry of Commerce, 2014). Its SMEs accounted for over 82% of Zhejiang's total export volume (Department of SME Development Scheme of Zhejiang SME Bureau, 2010).

Unfortunately, Zhejiang has experienced relatively high credit risk in international trade for a prolonged period. For example, in 2008, in the US market alone, payments to nearly one thousand Zhejiang enterprises were defaulted (China Export & Credit Insurance Corporation, 2008). These export bad debts were not only large in amount but also extended to a wide range of industries such as textiles, garments, mechanical and electrical products as well as building construction materials (Zhou & Hang, 2011).

In addition to these economic problems, Zhejiang presents advantages related to the researcher's background. The experience of a researcher and the ability to understand the phenomena studied can be an important advantage in capturing relevant data and making sense of it (Lindlof, 1995; Morgan & Smircich, 1980). The ability of the author to speak the local language, familiarity with Chinese cultures, and prior experience of working in a Chinese import and export corporation greatly assisted her in making sense of observations and the informants' narratives in a way that retains the authenticity of their perspectives (Langley, 1999; Pentland, 1999).

## **5.5 INFORMANTS**

In accordance with the Chinese regulation of standards for SMEs, the businesses studied were classified into three types, namely medium, small and miniature, based on industry categories and

other specific indicators such as the number of employees, revenue, and assets of companies (The Central People's Government of PRC, 2011). Companies with less than 200 employees or a yearly turnover less than RMB400 million (approximately USD63.5 million based on current interest rate) are normally identified as SMEs in the export industry (The Central People's Government of PRC, 2011).

Primary informants in this study were executives, financial managers, and export sales staff working in Zhejiang SMEs because the organisational roles enacted by those informants provide them with decision-making authority in ITCRM. Other significant informants included foreign buyers from different countries, and staff working in export credit insurance companies and the international trade departments of Chinese commercial banks to ensure multiple sources of data (Denzin, 1978) and to generate broader insights (Caprar, 2011).

Since informants are not limited to Chinese local suppliers (primary informants), but also include foreign buyers, credit insurance and banking staffs (other significant informants), different terminologies such as informants, suppliers or traders have been used throughout the thesis in different contexts, to be more specific. Moreover, in the findings' chapters, primary informants are initially described as 'suppliers' (or just 'informants') and then later as 'traders' as the author is moving into broader claims applicable to the category beyond this study while discussing the interpretations and conclusions. The issue of generalisability of this study is elaborated later in this chapter.

## **5.6 NONPROBABILITY SAMPLING AND RECRUITMENT**

A combination of nonprobability theoretical sampling, snowball sampling, and sequential sampling has been employed in this study. After initial contact with one or two exporters in a city, snowball sampling played an essential role in identifying additional relevant cases through interconnected networks between participants (Neuman, 2011). Furthermore, through theoretical sampling, data sources were purposefully diversified in terms of location, product category, ownership and sales turnover of companies, the nature and length of experience of participants, and the positions of local suppliers, in order to fulfil the needs of theory-building (Neuman 2011).

Sequential sampling was used to purposefully select unique cases that would be most informative in a specialised population such as those informants with previous credit risk experience. Sequential sampling was also used to identify particular types of cases for in-depth investigation using multiple methods. Continuing to gather cases until a saturation point was reached was a priority (Neuman, 2011). Patton (2015: 271) defines saturation sampling as “analysing patterns as fieldwork proceeds and continuing to add to the sample until nothing new is being learned”.

To gain initial access to companies and then recruit informants, the researcher relied on local personal networks including friends working in the export industry in different cities of Zhejiang province. Every possible opportunity was used to communicate with local suppliers in different settings in order to gain further insights into the cultural context, the trading environments and ITCRM practices. The researcher made further recruitment attempts by approaching the provincial Department of Commerce which is authorised by the China Ministry of Commerce to issue export licences. Every company in China must be registered in the local Department of Commerce in order to gain the right to import or export (Department of Commerce Zhejiang Province, 2011). Another source was Alibaba.com Corporation, the biggest business to business e-commerce platform in China. Many SMEs are registered on that site in order to promote and export their products. Other sources include the Division of SMEs of Ministry of Industry and Information Technology in China which is responsible for regulating and organising Chinese SMEs, and the China Association for Small and Medium Commercial Enterprises, supervised by the Ministry of Commerce and the Ministry of Industry and Information Technology, which holds most of the official data regarding SMEs.



## **5.7 DATA COLLECTION: FOCUS GROUPS, INTERVIEWS, FIELD OBSERVATION, DOCUMENT ANALYSIS**

### **5.7.1 Focus Groups and Interviews**

Formal data collection included both focus groups and individual interviews, which were conducted from November 2012 to August 2013 in seven cities of Zhejiang including two sub-provincial cities, four prefecture-level cities and one county-level city.

Focus groups were used because they are very appropriate for studying issues related to culture (Bloor et al., 2001) especially for exploratory purposes (Vaughn, Shay-Schumm & Sinagub, 1996). Focus groups allow researchers to initiate interactive discussion between informants with a clearly defined topic, and to share viewpoints, gain multiple perspectives flexibly, and generate more ideas collectively (Carson et al., 2001). The results may however be prone to biases arising from specific group dynamics, and provide limited opportunities for an in-depth probe into individual views (Caprar, 2011). *See Appendix D for focus group guide.*

A total of five focus groups were conducted (see Table 5-1). Specifically, there was one focus group with informants from different companies in the same product industry, one with informants from different industries, two with informants from different industries clustered in the same wholesale market, and one with both primary informants and other significant informants. These different groups were organised in order to gather a greater diversity of experiences and ideas. To ensure easier management and higher involvement of members, each focus group was limited to two to five members (Blackburn & Stokes, 2000).

Data from the focus groups in each city were analysed before moving to stage two, in which individual interviews were conducted based on the insights obtained in the first stage. Semi-structured field interviews allow researchers to understand the underlying reasons for decisions, attitudes and opinions. They can probe deeply and seek more elaborate answers and insights to reveal subjective meanings and allow a mutual discovery process (Saunders, Lewis and Thornhill, 2009; Neuman, 2011). The interview questions contained specific, closed, and factual questions to derive information such as the demographic information of informants and general

information about businesses. Open questions about topics like credit risk experience, values and practices, and change of local suppliers as well as some probing questions were also included (Saunders, Lewis and Thornhill, 2009). *See Appendix E, F for interview questions guides.*

In total, 45 interviews with primary informants were conducted (see Table 5-2), with four interviewees from the same company while all others were from different companies. Another 12 interviews with other significant informants were also conducted (see Table 5-3). Moreover, two additional interviews with previous informants were conducted to allow further clarification.

This study treats culture as dynamic rather than static, and one of the research aims is to explore the underlying mechanisms of intra-individual change towards native cultural values and practices in the context of ITCRM situations as local suppliers grapple with exposure to foreign cultures and international business complexities. Therefore, the field interviews and focus group discussions included questions about observed or felt changes over time, to explore rich and implicit information about this phenomenon (Triandis, 2001; Zhang, 2008).

As demonstrated in the ‘Focus Group Interview Guide’ (Appendix D) and ‘Semi-structured Interview Questions’ (Appendix E), interview questions such as ‘Have you (or your company) changed the practices of credit risk management in international trade before? If so, how are the previous and current ones different? What are the reasons for these changes? How did the change happen?’ ‘Are there any changes of your (or cultural) values and practices arising from the credit risk or credit risk management in the international trade? What are they?’ ‘Has Chinese culture changed from your points of view? If so, how is it different? What is the impact of culture changes on the international trade credit risk management?’ are employed to explore the changes in cultural values and practices arising from ITCR and ITCRM, and seek the strategies for improving the ITCRM abilities of local suppliers.

**Table 5-1 Focus Group Informants**

Informant code	<sup>a</sup> Position	<sup>b</sup> Experience (years)	Product Category	<sup>c</sup> Main Export Markets	<sup>d</sup> Employees	<sup>e</sup> Export (US\$ Million)	<sup>f</sup> Location
<i>Group 1: Primary informants from different companies but in the same product category</i>							
F1.1	O	6	Mechanical tools	USA, EU, JPN, AUS	180	22	J
F1.2	O	20	Hand tools	NA, ASEAN, ME	200	12	J
F1.3	O	12	Mechanical tools	EU	15	7	J
<i>Group 2: Primary informants from different product categories</i>							
F2.1	GM	20	Apparel	EU, USA, JPN, AUS, SA	190	60	H
F2.2	O	20	Hats	MIXED, EU, USA, ASIA	4	5	H
<i>Group 3: Primary informants from different product categories, but clustered in the same wholesale market</i>							
F3.1	O	13	Sewing Machines	SA, IND	3	3	Y
F3.2	O	16	Plastic toys	ASEAN, SA, ME	4	2.5	Y
F3.3	S	13	Electronic Toys	EU, NA, SA, ME, ASEAN	5	4.5	Y
F3.4	O	14	Office supplies	EU, SA, ME, AFRICA	3	2.3	Y
F3.5	O	12	Sewing kit	SA, ME, Africa	5	3	Y
<i>Group 4: Primary informants from different product categories, but clustered in the same wholesale market</i>							
F4.1	O	16	Curtains	KOR, ASEAN	5	5	Y
F4.2	O	15	Electric toys	SA, ME, ASEAN	2	3.6	Y
F4.3	S	20	Electric toys	ME, ASEAN	3	4	Y
F4.4	O	13	Miscellaneous	ASEAN, SA, ME	8	10	Y
F4.5	S	15	Bags	ME, SA, AFRICA, NA	6	6.5	Y
<i>Group 5: Primary informants and significant others</i>							
F5.1	FM	13	Plastics	SA, EU	200	60	H
F5.2	CIP	8	Credit insurance	N/A	N/A	N/A	H
F5.3	CIP	6	Credit insurance	N/A	N/A	N/A	H

Notes for Table 5-1 and Table 5-2:

- Position: O=Owner; GM=General manager; FM=Financial manager; S=Export sales manager; CIP=Credit insurance professional
- Experience refers number of years in exporting business
- Main Export Markets: NA=North American countries; SA=South American countries; EU=European Union countries; ME=Middle East countries; ASEAN= Association of Southeast Asian Nations; Country names are based on the three-letter country codes defined by United Nations Statistics Division. (Source: United Nations Statistics Division, 2013. Countries or areas, codes and abbreviations. <http://unstats.un.org/unsd/methods/m49/m49alpha.htm>. Accessed 15 November 2013.)
- Employees: Number of employees in the company which the informants work for
- Export: Annual exporting turnover in USD
- Location (City Name): H=Hangzhou; N=Ningbo; J=Jinhua; Y=Yiwu; W=Wenzhou; L=Lishui; Z=Huzhou; X=Jiaxing
- ITCRM: it contains information about 1) ITCRM formality, and 2) credit risk level of main payment methods used by informants.  
F=Formal ITCRM; I=Informal ITCRM; S=Semi-formal ITCRM; X=Mixed, flexible formal and informal ITCRM; L=Least risky payment methods; LM=Least to Medium risky payment methods; M=Medium risky payment methods; MH=Medium to highest risky payment methods; H=Highest risky payment methods; V=Mixed with various least, medium and high risky payment methods. (See Appendix L for credit risk levels of different payment methods)

**Table 5-2 Primary Informants for Individual Interviews**

Informant code	<sup>a</sup> Position	<sup>b</sup> Experience (years)	Product Category	<sup>c</sup> Main Export Markets	<sup>d</sup> Employees	<sup>e</sup> Export (US\$ Million)	<sup>f</sup> Location	<sup>g</sup> ITCRM
P.01	GM	30	Apparel, textiles	MIXED, EU, NA	200	50	H	F,V
P.02	GM	12	Apparel, textiles	USA	200	50	H	F,M
P.03	S	20	Apparel, textiles	EU, MIXED	200	50	H	F,V
P.04	E	20	Apparel, textiles	EU, USA	200	50	H	F,V
P.05	GM	15	Apparel, textiles	NA, EU, AUS	180	40	H	S,V
P.06	GM	20	Apparel, textiles	EU, USA, JPN	30	15	H	S,V
P.07	S	15	Animal products	ASIA, ME, SA, EU, NA	200	60	H	F,V
P.08	O	11	Toys, hardware	CAN, UK, PER	5	1.5	H	I,L
P.09	O	3	Hardware	NA, SA	7	6	H	I,L
P.10	GM	14	Apparels, textiles	EAST ASIA, EU, USA	60	40	H	X,LM
P.11	O	20	Hats	MIXED, EU, USA, ASIA	4	5	H	S,MH
P.12	S	2	Furniture	MIXED	150	10	H	I,V
P.13	O	16	Apparel	ASIA, ME, NA, EU	60	8.2	J	I,V
P.14	O	18	Shoes	USA, EU, KOR, ME	180	8.2	J	X,V
P.15	O	20	Hand tools	NA, EU	200	12	J	S,L
P.16	O	15	Mechanical tools	MIXED,NA, EU, ASIA	200	25	J	I,V
P.17	O	6	Mechanical tools	USA, EU,AUS	180	22	J	S,V
P.18	O	19	Sewing supplies	USA, EU	50	7	J	F,V
P.19	GM	7	Hand tools	EU, AUS, JPN, KOR	200	37	J	F,V
P.20	S	9	Cosmetics	IND, PAK, EU	180	11	Y	I,V
P.21	O	13	Sewing Machines	SA, IND	3	3	Y	I,MH
P.22	O	15	Electric toys	SA, ME, ASEAN	2	3.6	Y	I,MH
P.23	O	16	Curtains	KOR, ASEAN	5	5	Y	I,H
P.24	O	16	Plastic toys	ASEAN, SA, ME	4	2.5	Y	I,H
P.25	GM	3	Pens	COL, LBY, AUS	7	0.83	Y	I,V
P.26	O	12	Coloured lights	IND, ME	4	2	Y	I,V
P.27	S	5	Miscellaneous	MIXED	3	2.6	Y	I,L
P.28	O	20	Plastic Products	EU, AUS	13	1.3	N	S,L
P.29	O	22	Textiles	NA, EU, JPN	170	30	N	I,L
P.30	O	12	Teaching supplies	MIXED	3	0.55	N	X,V
P.31	S	9	Apparels, toys	USA, EU	50	25	N	I,V
P.32	GM	8	LED lights	EU	5	2	N	I,L
P.33	GM	15	Chemicals	NA	170	50	N	S,V
P.34	S	4	Auto parts, Apparels	JPN, EU, NA	100	20	W	S,V
P.35	GM	15	Electrical appliances	MIXED, EU, SA	16	15	W	I,V
P.36	S	13	Leather products	MIXED, EU, USA, BRA, JPN	140	1	W	X,V
P.37	EM	8	Shoes	JPN, USA, EU	9	3.3	W	I,V
P.38	O	11	Apparel	SA, EU, NA	7	7	W	X,V
P.39	S	12	Valves	NA, EU, SA	190	15	W	S,V
P.40	O	4	Dried vegetables	JPN	6	0.6	L	I,V
P.41	S	3	Sanitary towels	EU, NA, AUS	200	30	X	I,V
P.42	S	8	Apparels, leather	JPN, SA, USA, EU	100	1.5	X	I,V
P.43	GM	12	Apparels	MIXED, USA, EU, ME	50	20	Z	X,V
P.44	FM	13	Apparels	MIXED	36	25	Z	S,V
P.45	FM	16	Hardware, textiles	JPN, KOR, USA, EU	70	35	Z	F,MH

**Table 5-3 Significant Other Interview Informants**

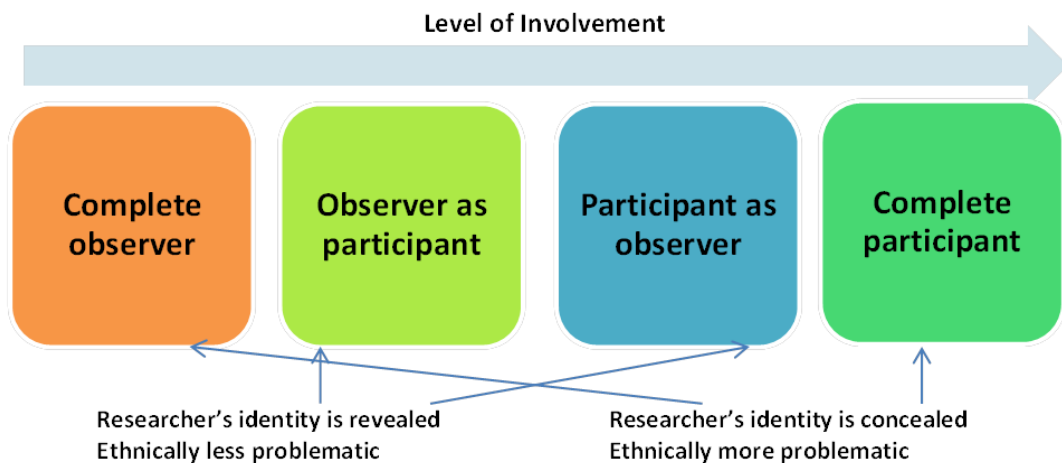
Informant Code	Occupation	Experience in industry (years)	Country	Position
S.1	Export Credit insurance	10	China	Lower-Management
S.2	Export Credit insurance	12	China	Middle-Management
S.3	Export Credit insurance	8	China	Non-management
S.4	Banking (International Trade Department)	6	China	Lower-Management
S.5	Importing	7	India	Businessperson
S.6	Importing	1/12	United Arab Emirates	Businessperson
S.7	Importing	20	India	Businessperson
S.8	Importing	7	Nigeria	Businessperson
S.9	Importing	23	South Korea	Businessperson
S.10	Importing	1/6	Dubai	Businessperson
S.11	Importing	4	U.S.A	Businessperson
S.12	Importing	2	Spain	Procurer

### 5.7.2 Field Observation and Document Analysis

Both focus groups and interviews to some extent are always structured and often not in a natural setting (Caprar, 2011). In order to obtain “the most complete and detailed data possible on the phenomenon” (Hall & Rist, 1999: 296) and to “reveal different aspects of empirical reality” (Patton, 1990: 187), the focus groups and interviews need to be supplemented by field observations and document analysis.

The level of involvement in field observation can range from “complete participant” (intimate insider) at one extreme to “complete observer” (detached outsider) at the opposite extreme (Bryman & Bell, 2011; Saunders, Lewis & Thornhill, 2009). Each level has its advantages and disadvantages. For example, the role of complete participant requires researchers to immerse themselves as insiders for an extended period of time, therefore they have a high risk of ‘going native’ resulting in the loss of a researcher’s perspective, but they are also more likely to capture the full depth of an insider’s experience. Roles at the detached end reduce the time needed for acceptance, protect the researcher’s self-identity and can sometimes help members open up, but are more likely to make misinterpretations (Neuman, 2011).

In order to reduce the time needed for acceptance, to help informants open up and reduce ethical risks, it is suggested that the researcher should stay relatively detached and only have very limited contact with informants during the observation (Neuman, 2011; Saunders, Lewis & Thornhill, 2009). The role of “observer as participant” was adopted for this study. Figure 5-1 compares the four typical types of field observation in terms of the level of involvement and the researcher’s identity as discussed in Denzin (1989), Saunders, Lewis & Thornhill (2009) and Neuman (2011).



**Figure 5-1 Level of Involvement and Ethical Issues in Field Observation**

*Source: adapted from Saunders, Lewis and Thornhill (2009) and Neuman (2011)*

In this project, observation was undertaken in various international trade wholesale markets and international trade fairs in Zhejiang, China. Field notes were taken as descriptively as possible to record the data from all observation events (Emerson, Fretz & Shaw, 1995; Caprar, 2011). The observation site was mainly at the ‘Yiwu Commodities Market’ in Zhejiang, which consists of 11 specialised markets and was regarded as ‘the largest small merchandise wholesale market in the world’ by the United Nations, World Bank and Morgan Stanley in 2005 (Baidu Encyclopaedia, 2012). Every day, about 200,000 merchants from different cities of China do business in this market and over 10,000 foreign companies have settled in Yiwu and import products to their home countries (Baidu Encyclopaedia, 2012). The researcher attended various international trade fairs in Zhejiang, which provided good opportunities for observations relevant to this study. These fairs included the 2012 China Yiwu International Commodities Fair (18th), one of the largest

international trade fairs in China designed especially for SMEs and co-hosted by the China Ministry of Commerce, Zhejiang Provincial People's Government, China International Trade Promotion Committee, and the China General Chamber of Commerce (China Yiwu Commodities Website, 2012). Moreover, notes regarding elements such as non-verbal cues, the working environment and the nature of interactions during interviews were taken soon after every interview (Caprar, 2011; Witt & Redding, 2009), which is particularly important for high-context countries like China (Hall, 1976).

To support triangulation of the data, document analysis was undertaken: 1) to enhance an understanding of the informants' organisation, product, industry, and regional background, 2) to increase the understanding and triangulate the interpretations of other sources of data (focus groups, interviews, and observation), and 3) to increase the validity and reliability of this study (Hall & Rist, 1999; Schweizer, 2005; Ravasi & Phillips, 2011). Sources of document analysis included company websites and employee manuals of local suppliers; reports, handbooks, brochures and websites of credit insurance companies; local newspapers that reported ITCR cases; and electronic credit risk alert websites operated by local governments.

## **5.8 QUALITATIVE DATA ANALYSIS**

Interpretive analysis of the qualitative data was undertaken through an “iterative hermeneutical approach of moving between the data and the literature to identify a logical chain of evidence and develop a coherent conceptual framework” (Shapiro, Ozanne, & Saatcioglu, 2008: 73). Data analysis consisted of preparing, transcribing, coding, categorising, tabulating and interpreting the data, to develop and refine theories, explanatory frameworks and propositions (Yin, 2003; Gibbs, 2007).

### **5.8.1 Preparing and Transcribing Data**

All audio-recorded focus groups and interviews were transcribed verbatim. However, there were 13 interviews in which the informants requested not to be recorded, but agreed that the researcher could take notes. In this case, the data was transcribed from the notes within a day of the interview to prevent later incompleteness. All data was transcribed in the original language (Chinese),

without immediate translation into English in order to preserve the accuracy and original meaning. Transcribed documents from the focus groups and interviews, field notes from observation, and the text for document analysis were organised according to source types. Data analysis was undertaken using the qualitative data analysis software ‘QSR NVivo 10’.

### 5.8.2 Coding and Categorising Data

Transcripts of focus groups and interviews, field notes from observation, and written data from the document analysis were examined line by line through the process of open coding. Some of the codes were generated through reference to theoretical concepts drawn from extant literature. For example, the statement “*But we have no choice, because they are bosses and leaders, just like they are fathers, we are sons...*” was labelled with the code ‘high power distance’. Other statements such as “*Although other people may be very jealous, and want to genfeng and copy our products*”, which cannot be related to the extant literature, were labelled with the original Chinese term such as ‘genfeng’<sup>4</sup> which in Chinese literally means that people follow the trend blindly. These decisions were made to preserve the authenticity of informants’ narratives.

Codes were compared, renamed and modified, with repetitive and similar codes eliminated and combined (Gibbs, 2007). In total, 704 descriptive codes were used to label the chunks of texts. All codes were classified and arranged in a hierarchy. Lower order codes such as ‘guanxi’—interpersonal relationship were subordinated below higher order codes such as ‘cultural values’. Through this process a long list of coding hierarchies was generated.

With the assistance of ‘QSR NVivo 10’, and particularly through the relationship nodes and matrix coding queries of this software (Bazeley & Jackson, 2013), axial coding was undertaken to recognise the relationships between categories, to reveal patterns and to prepare for the development of a suitable model (Strauss & Corbin, 1998; Saunders, Lewis & Thornhill, 2009). In total, 71 relationship codes were developed to reflect the interconnections between codes. For

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<sup>4</sup> Genfeng is a Chinese term which means that when something becomes popular, people tend to blindly follow the trend, copy and imitate the actions of others. Genfeng originates from conformity, and refers to the act of changing one’s behaviour to match the responses of others. Genfeng in China is mainly based on the desire to achieve “accuracy-oriented goals” or form an accurate interpretation of reality and behave correctly (Cialdini & Goldstein, 2004). Past studies show that collectivist countries (e.g. China) tended to show higher levels of conformity than individualist countries (Bond & Smith, 1996).



instance, there was a relationship code labelled ‘Cultural values\guanxi\face impacts on payment collection’, which reflects the links between cultural values and ITCRM decisions.

Together with theoretical sampling, selective coding was also undertaken to selectively collect new data or review field observation notes and sources of document analysis. This integrated and linked categories, to produce and generate more refined theories. Different categories were also connected to produce a set of theoretical propositions (Strauss & Corbin, 1998).

### **5.8.3 Reflective Reading and Interpreting Data**

Transcribing and coding involved the active processes of interpretation, sense-making and reflective reading of the data (Gibbs, 2007). This resulted in data interpretation documents, including the summaries for each case; a total of 71 memos discussing, theorising and commenting about new themes, codes, categories and their relationships; and notes for case-comparison. All memos and notes were also dated and hyper-linked to places in transcriptions and inscriptions<sup>5</sup>, case summaries and codes (nodes), with the assistance of NVivo (Gibbs, 2002, 2007).

Data analysis, interpretation, and explanation were mainly inductive with the aim to discover and develop new theories rather than verify pre-existing theories. Nevertheless, the coding process employs both deductive coding based on theoretical ideas derived from extant literature, and inductive analysis involving the discovery of new ideas, theories and explanations from the data (Gibbs, 2007). Both data interpretation and the coding process constantly referred back to the research questions which were theoretically informed (Silverman, 2011).

### **5.8.4 Tabulating Data**

A variety of data tabulations were generated using the matrix coding queries of NVivo 10 to explore the relationships between categories, and to build theories. Matrix coding queries allow the researcher to cross-tabulate how qualitative data such as informants’ narratives are coded (Bazeley & Jackson, 2013). A wide range of questions were asked through the queries to reveal

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<sup>5</sup> Inscriptions are descriptions of events and activities drawn from participant observation and field notes, while transcriptions are records of informants’ own words and dialogues drawn from focus groups and interviews (Silverman 2011).

patterns in the data, for example, the researcher compared what different groups of informants have said about their ITCR experiences, and compared their attitudes towards native cultural values such as guanxi.

Some of the tabulations are included in the findings chapters and appendices, such as ‘Frequency of Cultural Factors Affecting ITCRM’ (as shown in Table 6-3), ‘Values Change and Six Cultural Stances’ (Appendix H), ‘Intra-individual Cultural Values Change and ITCRM categories’ (Appendix I), ‘Cultural Meta-Cognition of Different ITCRM Categories and Cultural Stances’ (Appendix J).

Through these tabulations generated by matrix coding queries, coded source materials have been summarised and condensed, with each cell in the table represents the intersection of the themes in both rows and columns, or the intersection between the case (or case categories) and themes. Each cell of the tables displays the number of coding references which is counted by matrix coding queries. Cells that are blank or with zero mean there is no summary has been created for the intersection between the row themes or column themes (Bazeley & Jackson, 2013).

The validity of this qualitative research was improved through these data tabulations and simple counting techniques. This is because, firstly, a sense of variance within the data was obtained (Silverman, 2011: 380). For example, as is evident in ‘Table 6-3 Frequency of Cultural Factors Affecting ITCRM’, ITCRM steps such as credit granting decisions and payment collection were mostly affected by cultural factors. The variance of informants’ narratives on each table cell was checked to compare the differences among categories. For instance, whereas some informants still maintain Chinese native cultural values, in others these cultural values seem to have eroded, and even oppose the native cultural values.

Secondly, the “prevalence of the identified phenomenon” was checked through tabulations and simple counting from the matrix coding queries of NVivo (Silverman, 2011: 380). For example, it was found that some informants reported that they opposed the native Chinese cultural values such as guanxi, renqing, and mianzi, especially after their personal experience of credit risk in international trade. Through the tabulations, the number of informants holding this cultural stance

was probed to see whether it was a pervasive phenomenon worthy of further investigation (*See Chapter 7 for various cultural stances*).

### **5.8.5 Developing and Refining Theories, Explanatory Frameworks and Propositions**

During the processes of coding, categorising, tabulating and interpreting the qualitative data, different thematic categories and groups of cases were constantly compared and contrasted by using matrix coding queries, nodes, and attributes in NVivo (Gibbs, 2002, 2007; Bazeley & Jackson, 2013) as for example, the six categories of cultural stances (as discussed in Chapter 7), and the six ITCRM categories (as discussed in Chapter 8). New concepts were also introduced and explained depending on the complexities of each category and relationship.

The original data and the contradictory data were constantly revisited and retrieved, throughout the iterative analysis of data, and writing up of the results. This iterative process challenged and refined the evolving explanatory framework and finalised the process model, to ensure the findings, discussions and explanation were accurate (Shapiro, Ozanne, & Saatcioglu, 2008; Thompson, 1997). Patterns and relationships between categories were iteratively developed and altered, which resulted in dozens of different versions of tables, maps, flow charts and diagrams.

Importantly, when evaluating the author's sampling strategy, data analysis, and method of coding and categorising, it is essential to bear in mind that this research was not designed to test hypotheses, but to generate new theories and explanatory frameworks and propositions.

## **5.9 RELIABILITY**

Reliability refers to the extent of consistency within the findings arrived at through data collection and analysis. Reliability includes replicability of the research, that is, whether the research results and interpretations would be repeatable on other occasions by other researchers or observers, and whether the findings being produced and studied could not have arisen through accidental circumstances (Silverman, 2011; Saunders, Lewis & Thornhill, 2009; Hammersley, 1992; Kirk & Miller, 1986).

Various procedures were undertaken to improve the reliability of this study as follows:

- The research methodology, research method, research process, research strategy, data collection and analysis were described in a transparent, comprehensive and specific manner in the thesis. Specifically, extracts of the qualitative data (the tabulations drawn from matrix coding queries, some lists of codes and code definitions) are attached as appendices, and the chapters exploring the findings constantly refer to the informants' narratives (Moisander & Valtonen, 2006).
- The “theoretical stance” of this study, which differs from the cross-cultural comparative approach, was described in a detailed and transparent manner thus ensuring the theoretical interpretations and discussions are clear and explicit to other researchers and readers (Moisander & Valtonen, 2006; Silverman, 2011: 360).
- The interview questions and focus group guides, which were pre-tested with a small number of informants, are semi-structured to reduce “observer error” (Saunders, Lewis & Thornhill, 2009: 157). Supervisors and other peers such as editors of top journals and organisers of international conferences were also invited to review and question data collection, data analysis and findings (Deng, 2008).
- Participant information and consent forms, which explicitly describe information about the research background, objectives, research questions, significance of the study, data collection methods, focus group guides and interview questions, were sent to each informant one week before the focus group or interview to allow informants to have a basic understanding about the research and data collection process. Interview questions were also further explained by the researcher to ensure that each informant understood the questions in the same way (Silverman, 2011).
- Formal data collection, especially the focus groups and interviews, was recorded in a concrete manner, including verbatim transcription of the informants' narrative accounts. Qualitative data analysis was based on coding, categorising and tabulating with the assistance of the qualitative data analysis software, NVivo.
- Coding and categorising was undertaken in a consistent and standardised manner; definitions

of codes have been elaborated in the qualitative data analysis software NVivo to reduce the uncertainty of interpretation, and minimise the researcher's subjective "reconstructions" of what informants have reported (Saunders, Lewis & Thornhill, 2009; Kirk & Miller, 1986; Silverman, 2011: 361).

## **5.10 VALIDITY**

Validity in qualitative research refers to the degree to which the research findings, descriptions and explanations accurately represent the social and cultural phenomena being studied. Qualitative validity rests upon "authenticity" from the standpoint of the researchers, informants or readers (Neuman, 2011: 214; Hammersley, 1990).

Various procedures have been undertaken to ensure the validity of this study as follows:

- Different sources of data drawn from different qualitative data collection methods (focus groups, interviews, field observations, and document analysis) were compared and triangulated. This was done to avoid partial views, to provide a holistic, objective picture of the phenomenon being studied, and to improve the "rigor, breath, complexity, richness and depth" of the inquiry (Denzin, 1970; Denzin & Lincoln, 2000: 5; Silverman, 2011).
- All informants were selected from as diversified a population as possible, that is, from different companies, industries and cities. (Saunders, Lewis & Thornhill, 2009: 156).
- All informants were confirmed to be fully voluntary in the interviews and focus groups, and procedures were undertaken to ensure there was no dependent relationship to reduce "participant bias" (Saunders, Lewis & Thornhill, 2009: 156).
- Case descriptions, tentative research results and themes drawn from the data were returned to some informants to check accuracy, reduce "observer bias" and improve informants' validation of the research (Saunders, Lewis & Thornhill, 2009: 157; Silverman, 2011).
- Analytic induction was employed to continuously test, redefine and confirm the relationships, explanations and conclusions through the whole process of data collection and analysis in

order to improve validity (Saunders, Lewis & Thornhill, 2009). In the case where the explanatory framework failed to be verified by one or even several cases/informants, the framework was revisited and revised. Then additional informants were recruited and interviewed. The analytical induction process continued until the explanatory framework incorporated all the relevant data (Silverman, 2011; Saunders, Lewis & Thornhill, 2009; Gobo, 2009).

- The “constant comparative method” was employed during the data collection and data analysis stages of this study. At an early stage of data collection, in which only a few informants had been recruited and their cases analysed, the constant comparison was made simply within the “data fragments” within a single case (Glaser & Strauss, 1967; Silverman, 2011: 376). At later stages, constant comparison was expanded to a larger database as more informants were recruited. Different categories were compared and contrasted to allow the “full variation of the phenomenon” to be analysed (Silverman, 2011: 376; Perakyla, 2004: 288).
- Deviant cases were constantly and actively inspected and addressed during the implementation of the comparative method, until the explanatory framework that emerged could incorporate and explain all the data (Mehan, 1979; Silverman, 2011).
- The “comprehensive data treatment” method was employed in this study, in which all data were constantly and repeatedly examined so that “an integrated, precise model that comprehensively describes a specific phenomenon” could be developed (Mehan, 1979: 21; Silverman, 2011).
- With the assistance of the matrix coding queries of NVivo, appropriate tabulations were used to improve the accuracy and comprehensiveness of the data interpretation. The variance of different data and the prevalence of some phenomena were also derived through tabulating the data (Silverman, 2011).

## 5.11 GENERALISABILITY

Generalisability refers to the applicability and transferability of the research findings to other similar situations or populations (Ryan & Bernard, 2000; Tashakkori & Teddlie, 2003). This is normally viewed as a standard purpose in the quantitative research paradigm (Silverman, 2011).

There are extensive debates over whether the knowledge produced by qualitative research is generalisable. Some people claim that achieving generalisability is very difficult in qualitative research because 1) samples are less likely to be selected randomly and 2) the sample size is not big enough to ensure representativeness of the data and make inferences about a large population (Mason, 1996:91; Silverman, 2011: 385).

Nevertheless, others propose that statistical generalisability is not applicable to qualitative research because qualitative and quantitative studies have different priorities for research purposes and interests. Qualitative research normally emphasises producing context-specific knowledge; it aims to generate thick description and explanations about a social phenomenon and therefore, limits its generalisability to other similar situations (Creswell, 2007; Denzin, 1983). For some qualitative research scholars, there is no attempt to generalise beyond a single case or a few cases because their research interest is to analyse the “particularity and ordinariness” of the specific case (Stake, 1995: 236; Silverman, 2011: 385).

On the other hand, researchers such as Mason (1996), Gobo (2009), Flyvbjerg (2004), and Silverman (2011: 386) argue that qualitative research is generalisable in the sense that it can assist in the understanding of settings and contexts other than those under investigation. These theorists argue that it is fallacious to overstate the difficulties of summarising and developing general propositions and theories on the basis of several specific cases (Flyvbjerg, 2004:421). They claim that qualitative research should go beyond producing idiosyncratic descriptions with limited empirical evidence, and seek to provide explanations which have a “wider resonance” in some way (Mason, 1996:6).

In addition, the means to achieve generalisability in qualitative research differ from those in quantitative research (Silverman, 2011). For example, to ensure the generalisability of a qualitative study, data with rich information should be collected to generate deep meanings (Yin,

2003) and research methods should be designed to assure validity and reliability (Patton, 2015; Falk & Guenther, 2014). More importantly, the theories drawn from qualitative data should be well developed to go beyond the findings of a particular study and to apply them in similar contexts and situations (Maxwell, 1992; Yin, 2003).

Therefore, several strategies were employed in this study to provide thick explanations and to build theories which are generalisable in the qualitative sense:

- The selection of a research site with typicality, representativeness and rich information: Generalisability is said to be improved by selecting a research site with typicality and choosing informants with rich information (Schofield, 1993) to allow the researcher to obtain the essential data pertinent to the research inquiry (Patton, 2015). In this case, the selection of a Chinese context was representative of emerging economies confronted by the complications of international trade, as China has become the world's biggest merchandise exporter since 2009, and its total merchandise exports accounted for over 11% total world exports in 2013 (World Trade Organisation, 2014). Zhejiang is a typical Chinese province characterised by export dominated economy and export-oriented SMEs. Its total export reached USD248.79 billion in 2013, which accounted for over 11% total Chinese export (Chinese Ministry of Commerce, 2014). Its severe credit risk situation in international trade also signifies that it is an information-rich site worthy of research investigation.
- The adoption of theoretical sampling for “comparative inference”: Theoretical sampling was employed to diversify the data sources in terms of locations and product categories; that is, cases with a wide range of situations were chosen to “maximise variation” and “capture the heterogeneity of a population” in order to improve generalisability (Silverman, 2011: 386).
- The arrival at data saturation which led to comprehensive information: sequential sampling was used to purposively select the most informative cases until a saturation point was reached (Neuman, 2011). Data was collected to capture all possible situations and obtain a greater diversity of cases (Creswell, 2007). Saturation occurred after 38 interviews with primary informants and eight interviews with significant others.
- The use of triangulation of different data sources to ensure interpretive accuracy: Data from

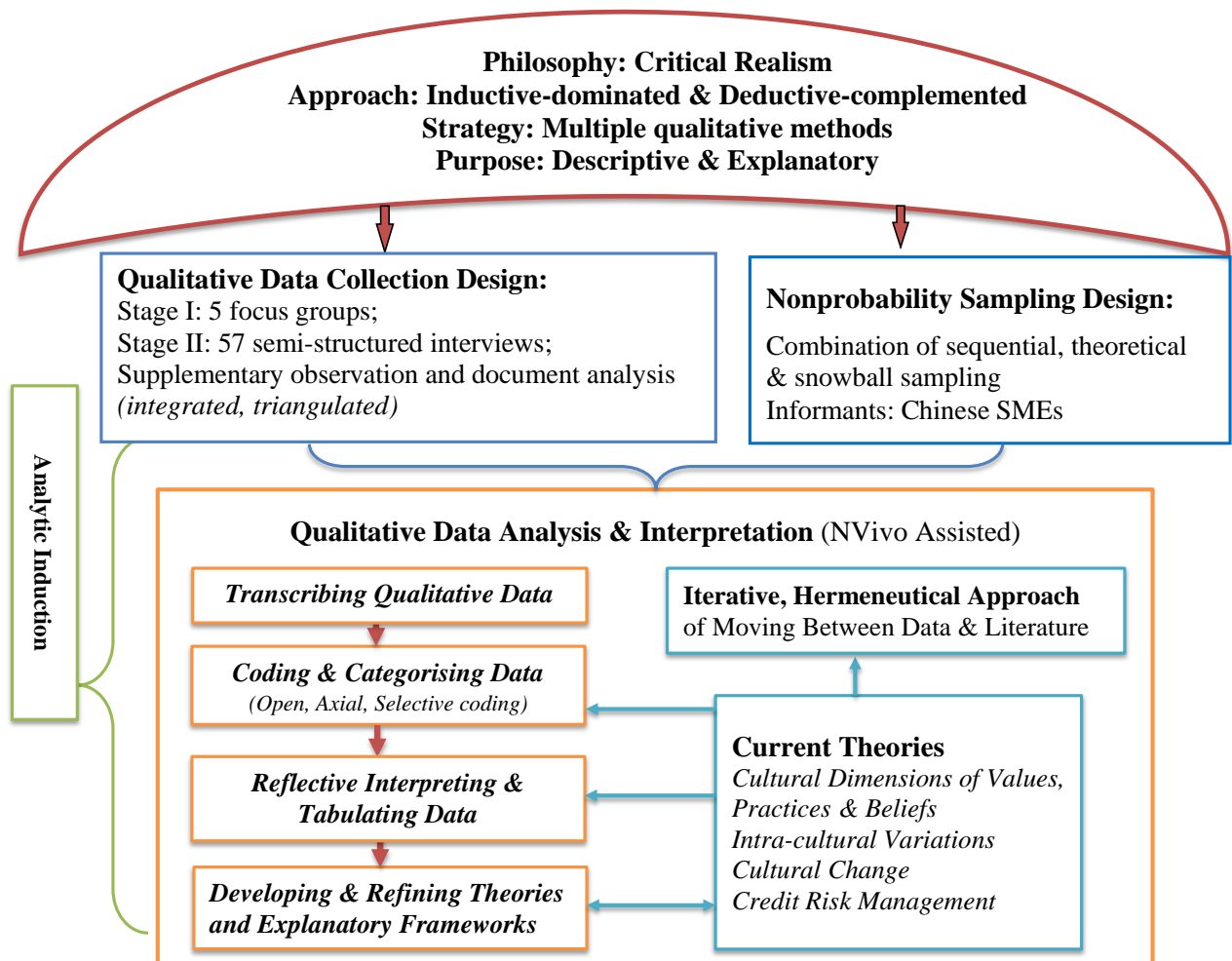


the focus groups and interviews were supplemented and triangulated with field observations. Document analysis in this study improved the accuracy of factual description, and increased the validity of interpretation and theoretical explanation (Maxwell, 1992; Falk & Guenther, 2014).

- The willingness to quantitise qualitative data to increase the legitimacy of explanation: with the assistance of NVivo 10, simple counting techniques and data tabulations (coding frequency and matrix coding queries) were used to count recurrent themes and check the prevalence of identified phenomenon. Counting served to increase the legitimacy of the explanation and conclusions of this study (Tashakkori & Teddlie, 1998; Onwuegbuzie & Teddlie, 2003; Silverman, 2011).
- The building of theories that were well-grounded in the data set. This study employs coding methods (open coding, axial coding and selective coding) similar to grounded theory (Glaser & Strauss, 1967) to ensure that 1) the explanations and theories are well-grounded in the data set; 2) the researcher's subjective interpretation is minimised; and 3) theory building is generalisable (Yin, 2003).
- The employment of the “deductive inference” technique to prove the “refutability” of theory (Silverman, 2011: 386; Gobo, 2009: 206): The discovery of different cultural stances (maintaining, reflecting, eroding, opposing, switching, minimising) refutes the popular cross-cultural theories (Hofstede et al., 1980, 1991, 2010; House et al., 2004) which hold there is usually high cultural agreement within a country. Moreover, the finding of these different cultural stances also refutes the assumption of ‘cultural determinism’. For example, this study found that for those defined as ‘conventional traders’, traditional Chinese cultural values played an essential role in their ITCRM decisions. Nevertheless, for informants from other categories (pragmatic traders or rational traders who hold different cultural stances), traditional Chinese cultural values (guanxi, face, renqing) are no longer an important consideration in their ITCRM decisions, and the informants are able to adapt their values contingent upon different situations.
- The reporting of “emblematic cases” to thickly describe the central social or economic

phenomenon (Silverman, 2011: 386; Gobo, 2009: 206). The findings of this research in the Chinese context demonstrates that there are multi-dimensional approaches to credit risk management practices in international trade including different categories of ITCRM strategies as adopted by informants in this study—conventional, bounded, stereotypical, conservative, rational, pragmatic traders, in addition to the globally recognised typical credit risk management practices such as export credit insurance and international factoring. Each ITCRM category has its rationale and reasons contingent upon situations and circumstances. Furthermore, the evidence for ‘bounded traders’ also shows that market competition and product homogeneity have an impact on ITCRM decisions.

Research design details are summarised in Figure 5-2.



**Figure 5-2 Research Methodology and Method for this Study**

In summary, the research paradigm and methods employed in this study enabled the author to address the research questions and achieve the research objectives. In addition, the research methods are consistent with contemporary recognition by a growing number of authors of the value and position of qualitative research in international business and management studies (e.g. Birkinshaw, Brannen & Tung, 2011; Doz, 2011; Marschan-Piekkari & Welch, 2004; Wright, 2003; Doz, 2011; Gertsen & S  derberg, 2011; Welch et al., 2011; Morris et al. 1999). Having explained the reasoning behind the author's chosen methodology, and having presented the detailed methods that were employed to collect and analyse data, it is now time to turn to the research findings. First however, this chapter is concluded by systematically listing the steps that were taken to ensure that the research, upon which this thesis is based, was conducted ethically.

## **5.12 ETHICAL ISSUES**

According to the 'ethics checklist step-by-step guide' produced by RMIT (2012), this research falls into the Low Risk Category. All interviews, focus groups and field observations were conducted after approval from the Business College Human Ethics Advisory Network (BCHEAN), and after receiving consent from all informants who had been fully informed of the research details (investigators' identity, research title, objectives, expected outcomes), research procedures (details of data collection, audio-recording in interviews, and related risks), the right to withdraw, and confidentiality procedures (such as data storage) (RMIT, 2012). Ethics Approval Notice is attached in Appendix G.

Procedures were undertaken as follows, to ensure that participation was purely voluntary and check that there was no relationship of dependency between the researcher and informant.

- Participant information and consent forms were sent to each informant one week before the focus groups, interviews or observation to allow participants enough time to make a decision. Informants were notified that participation was voluntary, not only in the information sheets, but they were also reminded at the beginning of every participatory session.
- Each participant's consent was given freely, and based on full information about participation rights, data collection procedures and use of data.

- No inducements (e.g. financial payments) were offered to informants.
- Participants were free to withdraw from the project partially or completely at any time, and have been informed of this.
- Interviewees were clearly informed that they have the right to refuse to answer any questions, and been asked permission to begin (Saunders, Lewis & Thornhill, 2009).
- The boundaries regarding time and location of participation, were advised clearly in advance, and strictly adhered to (Saunders, Lewis & Thornhill, 2009).

The researcher ensured that participation in the project did not cause harm, nor interfere with the conduct of normal business for informants. Detailed procedures are as follows:

- The time required for participation was limited and scheduled only during socially convenient times based on informants' informed consent. The location was arranged for the convenience of informants (Cooper & Schindler, 2008).
- The duration of interviews was honestly estimated, so that willing informants were able to set aside sufficient time. In cases where interviewees had limited time, two shorter interviews were arranged for the convenience of informants (Saunders, Lewis & Thornhill, 2009).
- Regarding field observation, the role of "observer as participant" has been mainly employed, in which the researcher is known from the beginning but has limited contact (Neuman, 2011) to minimise disruption to the business of informants.

The researcher abided by Australian (and RMIT University) ethics principles and procedures, even though the research and data collection was conducted in China. When conducting research in China, the researcher also abided by Chinese ethics protocols and respected the cultural sensitivities of informants. The details are as follows:

- The ethics principles in the 'National Statement on Ethical Conduct in Human Research' (2007-Updated 2009) was strictly complied with by the researcher (National Health and Medical Research Council, 2007).

- Although in China there are no ethics approval processes that are relevant to this research, informants were accorded no less respect and protection than the ‘National Statement’ requires.
- The researcher gave due respect to local cultural values, welfare, beliefs, customs, cultural heritage, opinions and expectations of participants, and conformed to local laws.
- There were no foreseeable values, beliefs, customs and cultural heritage of participants which are in tension with the ethical values of the ‘National Statement’, and no political and social factors that may jeopardise the safety of participants.
- The conduct of the research reflected continuing consultation with the local informant population and the communities to which they belong.
- No sensitive personal data such as information about informants’ political opinions, or marital status was collected or obtained (Saunders, Lewis & Thornhill, 2009).
- Although the Chinese interviewees could speak and read English due to their experience conducting international trade with foreign customers, all documents related to data collection such as participant information, consent form, interview questions, and focus group guides were translated into Chinese to ensure better understanding. Interviews with these informants were also conducted in Chinese.
- The researcher’s familiarity with Chinese culture, ability to speak the local language, and prior local work experience ensured due respect to the cultural sensitivities of participants.

Confidentiality was maintained during data collection, analysis and reporting to ensure informants and their organisations were unable to be identified and to protect their privacy. Particular attention and care has been taken in relation to the personal information of participants. Detailed management and monitoring procedures were as follows:

- All data was completely and genuinely anonymised during analysis and reporting. Data was stored with codes or numbers to represent participants and their

organisations. The identifying information file with informants attributes (informants' names, companies, and educational background) and the data was stored in different places (Veal, 2005).

- No further inappropriate personal information has been collected and processed, besides names, office emails, office numbers, positions, job responsibilities, and names of informants' companies. No personal data was processed in a manner incompatible with research purposes (Saunders, Lewis & Thornhill, 2009).
- The informants in focus group interviews were asked to keep the details of their conversation confidential both in the information sheet and at the end of interviews.
- Observation was restricted to public behaviours only. Moreover, the boundaries of what was permissible to observe was clearly based on informed consent of participants, and the researcher adhered to these guidelines strictly. Observations relating to the participant's private life, such as personal telephone calls and so forth, were avoided (Cooper & Schindler, 2008).
- Procedures were taken to avoid referring to data gained from a particular informant when talking to others, especially those who came from the same company, in order to avoid an individual being potentially or indirectly identified (Saunders, Lewis & Thornhill, 2009).
- Interview questions were asked based on semi-structured guides, and discussion topics were raised in a way that ensured an informant who has already referred to these topics would be unidentifiable (Saunders, Lewis & Thornhill, 2009). Interviewees had the right to refuse to answer any question.
- No emails, letters, interview transcripts and observation notes relating to a particular informant, were forwarded to other informants or other people (Saunders, Lewis & Thornhill, 2009).
- Participant identification (information that revealed names, telephone numbers, addresses, or other identifying features) was accessed only by the chief investigator of

this research.

- The research has ensured anonymity in all parts of the thesis/publication including the acknowledgement and appendices, unless the researcher received informed consent. Codes or numbers are used to represent informants in reporting results. To protect the privacy of informants and participants, there is no disclosure of any characteristics of informants or companies which would allow others to piece together the information and identify participants (Veal, 2005).

# **CHAPTER 6 CULTURAL FACTORS AFFECTING INTERNATIONAL TRADE CREDIT RISK MANAGEMENT PRACTICES**

As we have seen in the literature review for this thesis, current research has already pointed to the close relationship between culture and credit risk-related behaviours, such as risk preference and risk perception (Bontempo, Botton & Weber, 1997; Hsee & Weber, 1999; Kleinhesselink & Rosa, 1994; Kreiser et al., 2010; Weber & Hsee, 1998), risk management (Theil & Ferguson, 2003; Wahlström, 2009) and trade credit decisions (Brasch, 1973; Fisman, 2003; Olegario, 2006; Tu, 2004). Nevertheless, there is a dearth of existing studies that explore credit risk management from the perspective of culture, not to mention in the context of international trade.

This Chapter presents findings relevant to research sub-question one, ‘How are different elements of cultural factors such as cultural values, practices and beliefs associated with ITCRM of local SME suppliers in China?’ Table 6-1 lists those cultural factors which were found to be most associated with ITCRM practices as reported by the informants. In providing that list, Table 6-1 also illustrates how evidence has been extracted by the author from the entire range of data sources used in this study.

Table 6-2 then provides an example of triangulating data from different sources to detail the influences of one cultural practice (disregard of contracts) on ITCRM of Chinese SMEs. Table 6-2 thereby serves not only to present findings related to the cultural practice of disregarding contracts, but also as evidence for the author’s claim to have taken steps to ensure the validity and reliability of her research.

In addition to the value dimensions discussed in current cross-cultural theories (Hofstede, Hofstede & Minkov, 2010; House et al., 2004; Trompenaars & Hampden-Turner, 2012) and Chinese traditional values such as *guanxi*, *mianzi*, *renqing* (Gannon, 2004; Chinese Culture Connection, 1987), this study also examines how other native Chinese cultural values and practices influence ITCRM in China. These values and practices include ‘*baotuan*’ and ‘*forbearance*’, factors which have not been well investigated in past studies but which are included in this chapter.

This study further explores how different dimensions of cultural factors affect the different sequential elements of the ITCRM process (Table 6-3). The process components of three major modern risk management frameworks were summarised and compared in Chapter Three (see



Table 3-1). It was noted in Chapter Three however, that although those frameworks provide macro and conceptual models of risk management processes at the enterprise level, they do not offer a model specifically dealing with credit risk in international trade at the micro level, which is the focus of this study: so the author has used her empirical data to identify the important elements of ITCRM and those elements are listed as column headings in Table 6-3: Credit Risk Management (CRM) Orientation, Credit Risk (CR) Information & Communication Sharing, CR Perception & Awareness, CR Assessment, Credit Granting Decisions, CR Control & Transfer, CR Monitoring, Payment Collection, CR Remedy, and CRM Review & Continual Improvement. Definitions of each ITCRM element and related data evidence are attached in Appendix K.

Based on the matrix coding queries of NVivo, the author has been able to cross-tabulate cultural factors (as row headings) against ITCRM elements (as column headings). In Table 6-3, the frequency of cultural factors affecting ITCRM is presented. Table 6-3 shows how cultural factors play different roles in the various elements of ITCRM, and we can see from Table 6-3 that credit granting decisions and payment collection are the steps most affected by cultural factors: *guanxi* in particular. Consequently, after Table 6-3 is presented, this chapter then moves into an empirically informed discussion of the role that *guanxi* plays in the ITCRM of SMEs in Zhejiang. Brief extracts from the author's interview transcripts are included in that discussion, not only to provide deeper meaning but also to support the author's claim to have arrived at a justified interpretive analysis of the data.

The methodology of critical realism has informed the author's approach to interpreting her focus group interview data, her individual interview data, her document analysis, and her field observations. In explaining realism, Patton (2015: 114) points out that "qualitative methods are particularly useful for capturing and interpreting the specific constructions and construals that individuals make about how the world works. Realism places and interprets those constructions within both a specific theoretical and a particular real-world context". With regard to this research, the real-world context is constituted by the ITCRM practices of SME managers in Zhejiang and also by the shared beliefs, values, feelings, and behaviours that constitute the traditional and emerging culture of those SME managers. Consequently, as this chapter unfolds the author interprets the constructions and construals of informant managers about how the world works, by comparing and contrasting their interview comments with the Chinese cultural factors that have previously been explored and discussed in Chapter Four, and by taking account of the changing international business context.

**Table 6-1 Example of Cultural Factors Influencing ITCRM Practices, Illustrated with Evidence from Different Data Sources**

<i>Cultural Values, beliefs or practices</i>	<i>Cultural dimensions<sup>a</sup></i>	<i>Data sample</i>	<i>Data Source</i>
Cultural Values and beliefs (from etic studies)	Uncertainty avoidance <sup>b c</sup>	“When doing international trade, getting money back is most important. Getting the money is always the first. We should always be careful and cautious. With improved cautiousness, actually we are also responsible for our manufacturer... In terms of how to improve the risk decisions, in fact, increase the internal control is very important... Regarding credit risk, we must be very careful, and observe the trading partners’ ways of doing things, and improve our own cautiousness.” (P.36)	Interview with primary informants
	Long-termism orientation <sup>d</sup>	“With consideration of long-term cooperation and close ties, a furniture company in Wenzhou agreed to the open account as the terms of payment for its USD90, 000 exports to California. Unfortunately, the payment collection has been unsuccessful due to American importer’s default...”(Newspaper reported ITCR cases)	Document analysis
	Particularism <sup>d</sup>	“For long-term regular buyers, it is just the pro forma or routine process for approval, as long as the price is confirmed by us; all these buyers would be approved. But for new buyers, every transaction will be formally examined. After all, we cannot afford the loss. For new buyers from the very beginning, we just use the letter of credit and 100% deposit to minimise the risks. Only the regular buyers with long-term relationship, at least half year cooperation, can get the trade credit, for them, we generally offer credit for 30 days. So there is no relationship with the volume of business, and no relationship with the number of orders within this period, we only consider the length of time in cooperation and relationship.” (P.6)	Interview with primary informants
	Locus of control <sup>e g</sup>	“When facing this situation, we usually feel that we have no choice, because the competition is so severe. When a product suddenly comes out, all of us become the traders from the same industry. We also know that the money could be at risk of not being paid, but no choice. It’s just like gambling, if I won the bet, I won. That’s why we feel very tired, tired of doing business here, frustrated ... Very often the product design is here, the order is here, but the money from the last deal has not yet been paid off.” (P.42)	Interview with primary informants
Cultural Values (from emic studies) -indigenous Chinese values	Guanxi <sup>gf</sup>	“The reason that I granted credit for the deal with such a large amount is mainly because we have some guanxi (personal relationship) with each other. Some of the guanxi is gradually established for a long time. For example, the foreign buyers (e.g. overseas Chinese) gradually increase the amount of the orders, through this process, we build good friendship, and also the amount of granted credit is increasing... Finally, I am facing a dilemma, if I no longer grant credit to foreign buyers, both the friendship and business relationship would be broken. But if I grant credit, I really cannot afford such an increase in credit amount.” (P.6)	Interview with primary informants
	Mianzi (Face) <sup>f</sup>	“I got to know this buyer (an overseas Chinese) at a foreign trade fair. For the first order, he paid the money on time... Later he said he had some cash flow problems in other investments, therefore hoped that our company could change the payment terms and grant him the credit...because the order is approved by myself, so I must send the goods to him, otherwise, not only I lost my face, but also I cause him to lose face...” (P.3)	Interview with primary informants
	Renqing <sup>h</sup>	“Regarding manufacturers, due to over ten year’s cooperation with them, I normally pay the money after taking delivery of the goods. They give me a direct source of goods on trade credit, without the necessity to pay money upfront. We only settle the payment once a month, just because they are acquainted with me; friends have been made naturally over long time. It does not require any credit rating... “In general, credit is not offered to new buyers... But for buyers with friendship, for instance, with over ten	Focus groups

		years relationship, if they had some difficulties, I would help them. It is not just about the problem of owing money, I just offer some help to my friends. Even if it is not regarding owing payment for goods but for other reasons of owing money, it's also my duty to offer help..." (F3.1)	
	Harmony <sup>h</sup>	"Chinese culture emphasises harmonious relationship; therefore, we would not go to the court even as a last resort, so sometimes when we were facing credit risks, we generally would suffer the loss..." (P.45)	Interview with primary informants
Cultural values and practices (not well investigated in past theories)	Forbearance	"If the amount was small, we generally would avoid making further troubles, and just tolerate it. You know, Chinese generally hold the belief that it's better to save trouble; the less trouble the better. So we would avoid trouble whenever possible, and we would not resort to the legal way... Therefore, we tend to tolerate buyers' requests, even unreasonable requests." (P.3)	Interview with primary informants
	Genfeng	"The small commodity market is just like an aircraft carrier, there are hundreds of vendors selling the same or similar types of products, e.g. bags, leather shoes, toys, balloons, just on one street in Yiwu city, Zhejiang province..." (field observation notes-international wholesale markets)	Observation
		"In our city, maybe, according to incomplete statistics, there are over a thousand small manufacturers, just for producing cosmetics, just cosmetics such as makeup, nail art... At least a thousand, including small and large, some of them just small workshops, just for processing... Some of them even aren't included in the statistics." (P.5)	Interview with primary informants
	Baotuan	"Once, a foreign buyer imported a dozen containers of goods, because of the long distance, [it took] almost one month to reach the destination. The buyer bought different goods from different suppliers, based on various periods of credit, half month, one month, etc. When the goods were still in transport, after about six days of the transport, I knew the problem, and it was impossible for me to get the money back. Therefore, I ran around to persuade all the suppliers to make a claim jointly... Finally, we got the goods back, and everyone got their goods back. Although we needed to share the freight, the losses were smaller..." (P.44)	Interview with primary informants
	Disregard of contracts	"All we have are just orders, which list the kinds of goods ordered by foreign buyers, and sometimes signed by foreign buyers or salesmen... only orders... normally we do not sign contracts... This is not because we think a contract is useless, it's just our kind of business style..." (F3.1)	Focus groups

<sup>a</sup> These cultural factors emerged from different sources of data. Some of the cultural factors have already been described in the extant literature, therefore this study uses these labels directly from the literature, including:

<sup>b</sup> Hofstede, Hofstede and Minkov (2010)

<sup>c</sup> GLOBE project, House et al. (2004)

<sup>d</sup> Trompenaars & Hampden-Turner (2012)

<sup>e</sup> Kluckhohn and Strodtbeck (1961)

<sup>f</sup> Gannon (2004)

<sup>g</sup> Chinese Culture Connection (1987)

**Table 6-2 Example of Triangulating Data from Different Sources Regarding the Association between Cultural Factors and ITCRM**

<b>Cultural Practice: <i>Disregard of Contracts</i></b>					
<i>Source</i>	<i>Focus group</i>	<i>Interview: primary informants</i>	<i>Interview: significant Others</i>	<i>Observation</i>	<i>Document Analysis</i>
<b>Data Evidence</b>	<p>“All we have are just orders, which list the kinds of goods ordered by foreign buyers, and sometimes signed by foreign buyers or salesmen... only orders... normally we do not sign contracts... This is not because we think a contract is useless, it's just our kind of business style...” (F3.1)</p>	<p>“In the market, there are so many dealers, how can we prevent, what kind of means should we use to prevent, what channels to prevent risk. Every day, we meet so many people, how can we prevent risks? Yes, there are some standard contracts with various detailed conditions, issued by the administration of the wholesale market. These are useless, when we hold these originals (contracts), we don't even know how to use them. What are they for? How can the contracts have some functions in preventing risk? ...Now this is the reality, it's very obvious that the buyer owes me money, but we have anything we can do about it.” (P.22)</p>	<p>“As another example, an export sales staff member told me that he doesn't like writing emails, and said that the foreign buyer orally told him there would be no problem at all regarding payment. But when we (the Sinasure-Chinese export &amp; credit insurance company) sent letters to the Japanese buyers, they sent us a large pile of documents.” (S.1)</p>	<p>“In the International Trade Commodity market located in Yiwu city, when walking on the street in the market, you can find a lot of buyers from different countries, with different cultural ethnicities... many of the Chinese vendors cannot speak English, they communicate with foreign buyers using gestures... after they have made a deal, a vendor quickly took out a paper ordering list, wrote down the number and product categories, then handed it to the buyer...” (Field observation notes-international wholesale markets)</p>	<p>“A lot of cases reported regarding international trade credit risk are associated with negligence of formal contractual relationships... At least 50% export overdue or bad debts in Chinese companies were linked with ignorance of signing contracts. In these cases, many companies just had copies of customers' orders rather than formal contracts. Others, despite having signed sales contracts, were not backed up with 'secured' collaterals. (Document analysis: Newspaper reported ITCR cases: The Time Weekly, 2011)</p>

**Table 6-3 Frequency of Cultural Factors Affecting ITCRM<sup>6</sup>**

	CRM Orientation	CR Information & Communication	CR Perception & Awareness	CR Assessment	Credit Granting Decisions	CR Control & Transfer	CR Monitoring	Payment Collection	CR Remedy	CRM Review & Improvement
Guanxi (Interpersonal Relationships)	6	1	1	13	17	9	1	20	1	6
~~Ganqing (Affective bonds)	2			6	4	3		6		2
~~Renqing (Reciprocal obligation)	1	1	1	2	7	2		2		1
~~Mianzi (Face)				1	6	2		8		1
~~ Yiqi (Brotherhood, personal loyalty)				2	1					
~~ <i>Guanxi Closeness Affective Trust</i>	9		8	23	35	9	3	7		3
Harmony	2				2			2		2
Forbearance	1			3	5	1		12		6
Particularism	2			2	8	2	1	1		2
Flexibility	1			3		4				1
<i>Disregard of contracts Practice</i>	1					7	1	1	6	
Uncertainty Avoidance	16		10	12	22	15	2	5	2	12
<i>Control afterwards vs. beforehand</i>	3		1		2	1	1	2	1	9
Cautiousness	14	2	8	8	15	12	1	2	2	11
Preciseness	8		1	5	3	7	4	1	2	13
Locus of Control	27		6	9	18	13	5	10	2	22
~ Internal Locus of Control	2		2	0	3	1	1	6	0	
~ External Locus of Control	26		4	9	15	12	4	2	1	21
~ Negotiable Fate			1	0	1	3	0	2	1	3
Baotuan (Solidarity & Cooperation)	4	5		3	7	1	1	6		6
Orientation Towards Time Horizon	3				11	1		4	1	6

<sup>6</sup> The tabulation above is drawn from the results of a matrix coding query of NVivo during data analysis. The number in each table cell refers to the number of coding references, and represents the intersection of the themes in both rows and columns.

## 6.1 GUANXI (INTERPERSONAL RELATIONSHIPS) AND RELATED ELEMENTS

This study finds that the cultural trait most frequently mentioned by informants when making credit-granting and payment-collection decisions is guanxi and several guanxi-related elements. In Chinese, guanxi literally means ‘interpersonal relationships or connections’ (Su & Littlefield, 2001). It has been defined as “the social interactions within the network place” (Davies, 1995: 22), a “tight, close-knit network” (Yeung & Tung, 1996: 54), and “an intricate and pervasive relational network which Chinese cultivate energetically, subtly, and imaginatively” (Luo & Chen, 1997: 44).

As illustrated in the following quotation from informant F3.1, when trading with foreign buyers with guanxi (especially where there is a long-term personal relationship), informants tend to easily grant trade credits and engage in only a little or no credit risk assessment in business transactions.

For me, most of my customers are regular buyers with a long-term relationship. For these buyers, we normally don’t take any risk prevention measures, mainly because I trust them. After all, we are familiar with each other and have a good understanding between each other. For those buyers who are new, such as those I have only met for a few times, we usually take risk prevention measures and only accept prepaid cash as the payment method.  
(F3.1)

It should be noted that the development of guanxi is dynamic. Some Chinese suppliers tend to make different credit decisions with foreign buyers as the relationship evolves from one guanxi type, ‘*sheng-ren*’ or relationships with mere acquaintances or strangers, to another, ‘*shou-ren*’, or long-term relationships with affective attachment and deep commitment. Since guanxi operates in a particularistic rather than universalistic way (Wang, 2007; Bedford, 2011), as reported by informants, there is a clear distinction between new buyers (before any transactions have occurred) and regular clients (with previous long-term transactions). The closeness of the relationship is the major consideration contributing to credit granting decisions by informants.

Of course, we treat regular buyers and new buyers differently... Sometimes if regular buyers with a long-term relationship want to change their payment methods to D/A (documents against acceptance) or T/T after delivery (open account), we will consider agreeing with them. Occasionally, when they have some problems, we will take more care with them. (P.42)

For new buyers without any previous transactions, Chinese suppliers tend not to grant any credit to them. This is because initially *guanxi* with new buyers is based on the business relationship alone, and belongs to *sheng-ren* type, where not only is the trust level very low, but also instrumentality and utilitarian rule based on personal gain and loss is applied (Yang, 1993). At this stage, the Chinese suppliers' interactions with foreign buyers are regarded as superficial and temporary, and their commitment to such a *sheng-ren* relationship is very limited.

Generally, no credit would be offered to new buyers. There is no basis, you know. We normally just take advanced payment at the very beginning. Only when we become familiar with each other after several months and have some deep *guanxi*, would we then allow the buyers to owe us money for half or one month. (P.21)

Only after a period of transactions through which an interpersonal relationship has been built and where care and understanding has been nurtured will both parties become more closely attached, trusting, and committed. This is where *sheng-ren* *guanxi* transfers to *shou-ren* *guanxi*. Only then would Chinese suppliers consider granting trade credit to foreign buyers. Buyers with long-term relationships are more likely to enjoy priorities and privileges in gaining trade credits. As the relationship develops, core values such as *ganqing*, *renqing*, *mianzi*, *yiqi* (a code of brotherhood) become more important. Chinese suppliers tend to have a strong sense of reciprocal obligations, and are ready to give or exchange favours for the sake of developing friendship, sustaining and fostering *guanxi*, or giving face to foreign clients and saving face for themselves.

The terms of payment is normally determined by the boss (owner). For long-term regular buyers, it is just the pro forma process for approval. As long as the unit price is confirmed by us, all these buyers would be approved. But for new buyers, every transaction would be formally investigated. After all, we cannot afford any losses. (P.37)

There are several paths by which business *sheng-ren* guanxi could develop towards *shou-ren* guanxi, where friendships could be fostered with more ganqing, renqing, mianzi and yiqi, and where pure instrumentality could transform into a more reciprocal relationship with greater affection and a sense of brotherhood (Yang, 1993). For example, as informants reported, social activities, previous transactions and active commitments in renqing exchanges are typical paths through which deep affective relationships evolve.

Introduction through intermediaries is one of the most important strategies to earn trust from Chinese local suppliers. This is because guanxi building is a dynamic, interactive, multi-path process, which initially involves two individuals but may involve more parties at later stages (Fan, 2002). As such, interpersonal relations are convertible and transferable (Yang, Su & Fam, 2010). Informants report that with intermediary-based trust, or with intermediary-based guarantees from friends or other people on guanxi networks, they feel more comfortable about granting trade credit to foreign buyers, even to those buyers who are new and without previous transactions.

Sometimes my judgement about credit risk was based on the introduction of my friends... Under these circumstances, we are quite relaxed, and the chances of giving credit would increase. Generally speaking, Chinese trust their friends... After all, I think that if my friends introduced business to me, they would not harm or cheat me. (P.10)

While informants report on the role of guanxi on ITCRM decisions, they frequently mention other Chinese native cultural values such as ganqing, mianzi, renqing, yiqi at the same time. This is consistent with the extant literature contending that ‘guanxi’ is a multi-faceted construct, which consists of different elements including ganqing, renqing, and xinren, and liyi (utilitarian benefits). Guanxi is also highly associated with mianzi (face), harmony, long-term orientation, particularism, and the rule of reciprocity (Barnes, Yen & Zhou, 2011; Yen, Barnes & Wang, 2011; Yang & Wang, 2011; Chen & Chen, 2004; Wang, 2007; Wang, Siu & Barnes, 2008; Leung et al., 2008). The following section explores the role of guanxi-related cultural elements and their impact on ITCRM decisions.



### **6.1.1 Ganqing (Affective and Emotional Attachment)**

Ganqing, literally meaning affection, sentiment and emotion, is the degree of affective bonds and emotional commitment that exist among the parties in a network (Wang, 2007; Chen & Chen, 2004). Ganqing is the emotional side of guanxi (Chen & Chen, 2004), and is often an indicator of how close guanxi is and the quality of the relationship between two parties (Kipnis, 1997). Deep ganqing means there is considerable emotional attachment in which two parties have established a particular social relationship over a long period of time (Chen & Chen, 2004). In business settings, ganqing is the degree of mutual personal friendship and liking shared by the buyer and seller (Mavondo & Rodrigo, 2001).

Where deep ganqing (affective bonds) similar to friendship exists, some Chinese suppliers are more likely to trust foreign buyers, and rely more on affection-based trust rather than cognition-based trust (Chua, Morris & Ingram, 2009; Jiang et al., 2011). Rather than making an objective assessment of buyers' financial capability and credit records, some informants tend to use a more subjective, intuitive credit risk assessment. When transacting with buyers where deep affective bonds have been established over a long period, credit-granting decisions are no longer a process of cost-benefit analysis. In this case, informants would not even consider any credit risks involved and would not take any specific credit risk control or transfer methods like export credit insurance.

For those buyers with good relationships for over five or ten years, we normally accept payment after delivery, and settle payments once every month. After all, over a long time, the relationship has automatically turned into friendship with affection; therefore, there is no need for any credit rating. (F3.1)

Under the circumstances where buyers delay payment, these informants reported that they would not worry about it but still engage in social interactions such as wining and dining together, visiting and participating in each other's events, gift-giving, cooperating or working together, and a continuous exchange of favours, to nurture ganqing and reinforce guanxi.

We usually send emails to remind our buyers. Anyway, we are not very worried over these issues like payment arrears, because we attend trade fairs every year, and sometimes we would go to visit our customers, for example, we often go to Europe to visit our customers. Therefore, even though long-term regular buyers delay or default on their payment for a period of time, it is generally acceptable. (P.37)

### **6.1.2 Renqing (Reciprocal Obligation and Empathy)**

Renqing, literally means sensibility, human sympathy and human kindness, or favouritism (Yen, Barnes & Wang, 2011; Hwang, 1987). Like ganqing, renqing is also an important underlying mechanism of guanxi (Wang, 2007). While ganqing is the affection and emotion devoted to friends, renqing is a human debt to acquaintances (Fan, 2002). Renqing is practiced through a continued exchange of favours (Hwang, 1987; Luo, 2001), and follows the rule of reciprocal obligation on a long-term basis (Fang, 1999). Through exchanges of renqing such as gift-giving, offering special treatment, and allocating scarce resources (Wong & Leung, 2001), ganqing is materialised, and guanxi networks are woven and tightened (Yen, Barnes & Wang, 2011).

As reported by some informants, those who have long-term affective relationship with certain buyers, 'renqing' is also influential in the ITCRM decisions of some Chinese suppliers. When such a buyer asked for trade credit, in order to avoid any relationship breakdown, the suppliers who were interviewed for this research say they felt obliged to grant credit and were embarrassed about refusing requests from a buyer because of the renqing established through their previous transactions.

The reason that I granted credit for the transaction with such a large amount is mainly because we have somewhat developed guanxi (personal relationships) with each other. Such guanxi and renqing was gradually established over a long period of time. For example, foreign buyers (overseas Chinese) gradually increased the amount of their orders. Through this process, we build a good friendship, and also the amount of credit granted increases ... Finally, I face a dilemma, if I no longer grant credit to foreign buyers, both the

friendship and business relationship would be broken. But if I grant credit, I really cannot afford such an increase in credit amount. (P.37)

An informant also reported his experience of credit risks with a foreign buyer. Because of the renqing owed to this buyer, he not only felt obliged to grant a large amount of trade credit to the buyer, but he also felt reluctant to take any prompt formal actions such as frequent reminders or legal action against the buyer when the buyer defaulted on the payment. This is because giving and receiving of renqing follows the rule of reciprocity (Hwang, 1987), that is, while the informant enjoyed the benefits of favour from the buyer, he believed that he had to take on a reciprocal obligation that must be paid back in the future. Any non-repayment is regarded as not in conformity with accepted moral and ethical principles, and may cause the original benefactor to lose mianzi (face) and hurt his or her feelings (Luo, 2001). This may even result in the reciprocal rule being broken and guanxi being damaged or even terminated (Chen, 1994; Luo, 2001).

There was a British buyer, with over three to four years of transaction history... He normally placed orders three times a year...He was very keqi (polite and courteous) every time he came here. Once when I went to Shanghai, he even paid my hotel fees... He also introduced his friend to me, and his friend bought a large amount of products from me, much more than he did... Then there came a period of time with no more orders from him, and I was told that he had very poor operating conditions. I checked with the financial department and there was over USD60,000 in arrears. I didn't ask for immediate payment, but allowed him to make the payment by instalments. I said as long as he sent me USD1,000 per month, that's fine...In fact, I was very helpful to him; almost I had given up the money. Even like this, he just made the payment for only two months. (P.38)

Another informant also reported his experience of overdue payment collection which involved renqing with the foreign buyer. Renqing was nurtured and favours were accumulated by the buyer through social activities with the Chinese supplier, who then felt reluctant to take further actions with this buyer.

He (the foreign buyer) had always evaded us. One day he said he was here, and the next day he was there... But he had taken care of our accommodation and food while we were

overseas (in the buyer's country), he had looked after us very well, and invited us to dinner every night. When we asked him for money, he just said, 'No money.' Eventually, through negotiation, we offered him a big discount, and we sold our products for a very cheap price. Otherwise, how could we deal with it? (P.35)

### **6.1.3 Mianzi (Face)**

Mianzi signifies the recognition by others of an individual's social standing, respect, honour and moral reputation in Chinese society (Wong & Leung, 2001). In Chinese culture, it is not only important to maintain good relationships but also vital to protect a person's mianzi, or dignity and prestige. It is a key component underlying the dynamics of developing guanxi and maintaining renqing (Sherriff, Lorna & Stephen, 1999). Through saving mianzi or giving mianzi, guanxi between two parties is nurtured (Buckley et al., 2006).

There are two types of mianzi: one represents the prestige, status, respect and honour that accrues to a person because of material successes or possibly due to their ostentatious behaviour (Bond, 1991; Hwang, 1987; Hwang, Francesco & Kessler, 2003). The other refers to the moral character and reputation conferred by the group because of a person's honesty, reliability, adherence to generally accepted social norms, or accordance with group expectations (Earley, 1997; Bedford, 2011).

This research has revealed that the Chinese cultural trait 'mianzi', particularly the above-mentioned second type, has some impact on ITCRM decisions. For example, when a regular buyer asks to be granted trade credit, such as an open account for 30 to 60 days, some informants would feel embarrassed to refuse such a request because of their concern about loss of face for the buyer and the breakdown of the long-term relationship. As one informant reported, he lost half a million US dollars in one deal in order to preserve face for himself and give face to the foreign buyer.

I got to know this buyer at a foreign trade fair. For the first order, he paid the money on time... Later he said he had some cash flow problems in other investments, and therefore hoped that our company could change the payment terms and grant him some trade credit...

Because the order was approved by me, I must send the goods to him, otherwise, not only would I have lost face, but also I would cause him to lose face... (P.10)

Similarly, in terms of payment collection and dispute settlement, some informants are concerned that frequent reminders and chasing overdue payment would cause the foreign buyers to lose face and therefore break the relationship. They also thought that once someone cheated in a transaction or defaulted in payment, he or she would lose face and reputation himself/herself.

There were a lot of disputes which haven't been resolved, and a lot of overdue accounts, some of them have even lasted two or three years... It's mainly due to the relationship with our buyers, especially with long-time customers. We just complete the following orders first, rather than remind our buyers very often and asking for payment. This is mainly due to Chinese renqing and face. (P.25)

We generally communicate with our customers and ask for payment. There are several cases of payment default; under most of these circumstances, we would negotiate with the buyers... There are no other ways, for foreign trade companies here. We don't like litigation or any judicial processes, not only due to the high costs, but also because of the feelings of breaking face and guanxi. (P.45)

#### **6.1.4 Yiqi (Brotherhood, Personal Loyalty and Obligation)**

When their relationship with foreign buyers deepens, some informants developed more commitment to these buyers. They would even grant trade credit and sacrifice their own benefits and interests. Several informants mentioned that when the relationship with new buyers transformed to more intimate *pengyou* guanxi (friendship), they were more likely to behave in conformity with the code of *yiqi*.

Yiqi, literally means brotherhood, personal loyalty, obligation to friends, or righteousness and justice. It originates from Confucianism, and holds that a man should be willing to give up his own interests or bear risks to help a friend (Su & Littlefield, 2001; Fan, 2002).

As mentioned by some informants, they would rather sacrifice their own interests to help the

friend (foreign buyer) and grant trade credit to them, if the buyer has financial difficulties in business operations. This is because ganqing, renqing and yiqi associated with foreign buyers signifies a sense of loyalty, solidarity and the willingness to take care of each other under all circumstances (Chen & Chen, 2004).

In general, credit is not offered to new buyers... But for buyers with friendship, for instance, with over ten years relationship, if they had some difficulties, I would help them. It is not just about the problem of owing money, I just offer some help to my friends. Even if it is not regarding owing payment for goods but for other reasons of owing money, it's also my duty to offer help. (F3.1)

Consequently, as reported by informants, there are a lot of credit risk cases related in some way to long-term guanxi between Chinese suppliers and foreign buyers in international trade transactions. Under these circumstances, some informants believe that their affective relationships have been exploited by foreign buyers. In contrast, for other informants, although the foreign buyers delayed or defaulted the payment, they were still reluctant to take immediate actions against foreign buyers in consideration of their present and future long-term relationships.

With consideration of long-term cooperation and close ties, a furniture company in Wenzhou agreed to an open account as the terms of payment for its USD90, 000 exports to California. Unfortunately, payment collection has been unsuccessful due to the American importer's default. (Document analysis-Newspaper Report).

During that time, I actually had no choice, the price was very very low—almost without any profit. But for such a big order, and for a buyer with whom I was familiar and had a long-term relationship, I felt obliged to make the deal. I started to manufacture the goods, even though the buyer hadn't paid any deposit. But finally, the buyer disappeared and couldn't be found any more. (P.14)

The above section demonstrates that one of Chinese most important native cultural values, guanxi and its related elements of ganqing, renqing, mianzi, yiqi, have some impact on ITCRM decisions of Chinese suppliers. Nevertheless, further data exploration reveals that the ITCRM practices of local suppliers are not always culturally bounded. Guanxi and related values play different roles in

ITCRM practices for different categories of informants, that is, there are intra-cultural variations in terms of the influence of native culture on ITCRM practices in China. For example, the following informant reported as follows:

So we should learn to identify the traps of buyers. Normally the longer the customer relationship is, the more vulnerable we are... We cannot say there is no risk with long-term regular buyers. The longer the relationship with the buyer, the more caution we should take.  
(P.39)

In other words, informants demonstrate different cultural stances in which they more or less practice Chinese native cultural values to different extents. Further elaboration about the various cultural stances is provided in Chapter 7. Moreover, informants demonstrate different practices regarding ITCRM behaviours. For example, the distinction rule between *shou-ren* and *sheng-ren* guanxi on credit granting decisions has different impacts on different categories of informants. While some conventional traders stick to guanxi value and only grant credit to buyers with long-term relationships (*shou-ren* guanxi); bounded traders grant credit to buyers no matter how extensive the guanxi, that is, they grant credit to both regular buyers (*shou-ren*) and new buyers (*sheng-ren*) due to competitive environmental pressures. These different categories of ITCRM practices are discussed in Chapter 8.

## **6.2 HARMONY AND FORBEARANCE**

Two other important native cultural values related to ITCRM practices, as mentioned by informants, are harmony and forbearance. Interpersonal harmony, as one of the elements of guanxi, is not only the underlying guanxi network, but is also closely associated with the preservation of mianzi (face) in Chinese collectivist society (Gu, Hung & Tse, 2008; Leung et al., 2008). Without a harmonious relationship, trust would not be built, mianzi would not be protected, reciprocal obligation would be broken, and guanxi would not continue (Zhang & Zhang, 2013). In order to preserve harmony and long-term relationships, some Chinese suppliers are more likely to compromise and grant trade credit to foreign buyers, or avoid any direct refusal to grant credit.

Many companies, for the sake of keeping *mianzi* and *renqing*, are not good at refusing others... The thinking patterns of Chinese are like this: whatever the buyers want, they just agree, or compromise to accept it... But when the deal has been made and they have started to manufacture the goods, they then consider whether it (credit) can be offered. (P.17)

Under the circumstances of foreign buyers delaying or defaulting on payment, some Chinese suppliers are more likely to inwardly ‘forbear’ and tolerate the negative situation. They avoid direct confrontation and communication with foreign buyers, and refrain from taking any formal actions against foreign buyers in order to maintain harmony and avoid any relationship breakdown. For example, as reported by one informant, when his overseas client defaulted on a payment of over USD60,000, he still did not request immediate payments and did not have direct communication with the overseas buyer. He thought it was meaningless to go abroad and chase the payment. He considered that all he could do was just to accept whatever happens to him. Therefore, he did not take any further actions against this overseas buyer.

Ren (forbearance or tolerance) is similar to (and closely linked to) harmony. It has been ranked as one of the most importance values in Chinese culture, as in the studies of Chinese Culture Connection (1987) and Chu & Ju (1993). On the one hand, forbearance is closely associated with maintaining harmony, preserving the other party’s *mianzi* in order to sustain interpersonal relationships. On the other hand, forbearance in China represents a very inward-oriented, rather passive and fatalistic value when dealing with problematic situations. It focuses on accepting whatever happens and tolerating any difficulties and sufferings as they are. It holds that people should refrain from actions because no human actions can change the universal way. If others hurt us, rather than seeking to change outside society, we just have to bear the harm patiently (Pan & Yu, 2001; Cheung & Chan, 2005).

As discovered in this study, pursuing interpersonal harmony and internal forbearance has been the guiding principle when some Chinese suppliers handle conflicts and disputes involved in ITCRM situations, especially when interacting with buyers with whom they have good *guanxi*. This is consistent with the conclusions of some other studies, for example, Leung (2008), Gabrenya and Hwang (1996), Zhang and Zhang (2013).



Regarding payment default by foreign buyers, I also had risks before. For example, one of my buyers after many years of relationship had some difficulties in their business operations for some reason. I just calmly accepted it. Why? Because after all, we cooperated with each other for so many years... Anyway, I also have to accept the situation. (F3.2)

### **6.3 PARTICULARISM, FLEXIBILITY, AND DISREGARD OF CONTRACTS**

The practice of ‘disregard of contracts’ has been found to be associated with CR control and CR remedy, as shown in data analysis by NVivo’s matrix coding queries. Many informants reported that most of the credit risk cases are associated with the practice of neglecting contracts or not formally signing contracts with foreign buyers. This study labelled the practice of ‘disregard of contracts’ as a cultural practice (rather than cultural values or other manifestations of culture), because it describes the actual behavioural or performative part of culture, which is observable and objective. It is a prevalent practice used by Chinese suppliers, one that is shared by cultural members (Matsumoto, 2006; House et al., 2004). As reported by a manager from the Chinese Export Credit Insurance Company:

The export credit risks faced by foreign trade companies are generally due to inappropriate contractual practices, incompetent or inadequate risk prevention orientation, and also because the terms of contracts exert no restraints on the buyer. For example, sometimes if you cannot meet the shipping deadline, you must communicate and confirm with the buyer in writing, or modify the written contracts. (S.1)

Several institutional, economic and cultural factors have led to the practice of contract disregarding; and the first reason, as mentioned by some informants, is the perceived deficiency in contract-enforceable legal institutions. In sound institutional environments, suppliers may employ formal contractual relationships as protective measures to safeguard against foreign distributors’ opportunism (Wu et al., 2007), whereas in emerging markets where legal institutions are weak and formal contracts are often not enforceable, exporting suppliers rely decreasingly upon explicit

contracts to curtail opportunism (Heide, 1994; Williamson, 1979). As reported by the following informants, since they perceived that the enforcement of legal contracts was not effective, and the institutional environment was ineffective in curtailing foreign buyers' opportunistic behaviours, they were not likely to use formal contracts in international trade transactions.

All we have are just orders, which list the kinds of goods ordered by foreign buyers, and sometimes these are signed by the foreign buyers or salesmen... only orders... normally we do not sign contracts... (F4.1)

Standard order lists are sometimes distributed to us, with various kinds of terms and conditions, but all of these are meaningless. Even though we keep the originals, what do we use them for? Do they have some function to prevent or control risk? (P.26)

The second reason is the informants' stated preference for being flexible to accommodate changing circumstances. Highly explicit contracts normally indicate a formalised relationship between partners. They focus on specific objectives, responsibilities and obligations and spell out penalties for default or detrimental behaviour (Dwyer et al., 1987; Moorman et al., 1993). In contrast, as reported by some informants, without this kind of a formal and rigid contract, both parties can enjoy the benefits of flexibility without taking too much responsibility. These informants thought that as long as money could be earned, there were multiple ways to do the business; therefore, contracts would not be strictly complied with. Further investigation with these informants revealed that the flexibility possibility without a contract was in line with the unique business model adopted by these small and micro enterprises under specific market conditions such as small transaction amounts, the offer of a wide variety of goods, and financial constraints.

The market is too big. Even though we signed contracts, they were just useless. For example, when the foreign buyer placed orders with us, they still have the power to decide whether or not to buy, and how many goods to buy... One is due to the money problem, another is due to the size of containers. If the container couldn't fit in, did they still need to buy the goods? This is also one benefit of this market; very flexible, the buyer can decide any amount of goods to buy. Similarly, if a buyer placed an order, the supplier can make delivery based on their inventory and ability, even if the supplier cannot deliver the exact

amount or type of goods, the buyer has nothing to do with us... Both parties do not need to take any responsibility. (P.27)

Flexibility signifies adaptability to change and responsiveness to the external environment (Ngo & Loi, 2008; Chow, 1998). In China, it is a principle promoted by Daoism, which advocates the philosophy of naturalism (Porter, 1988). According to the natural way of Daoism, the principle of flexibility emphasises non-absolutism and the availability of opportunities and alternatives. It asserts that all things and conditions are protean, ever changing, and unpredictable, and people need to cope with situations flexibly (Cheung & Chan, 2005). Furthermore, *guanxi*, one of the core Chinese values, also highlights the importance of flexibility and adaptability to external changes so that conflicts or negotiations can be settled smoothly amongst partners linked through a network (Su, Yang & Yang, 2012; Wong & Chan, 1999; Wong, 2010). The cultural trait of flexibility, together with its association with *guanxi* and the practice of contract disregarding in China were also confirmed by the following informant:

Foreign companies focus more on creditworthiness, and always follow established procedures... In contrast, we focus on the continuing business relationship... We want to be flexible and able to adapt to different conditions, rather than strictly abide by a contract... Sometime we take shortcuts... As long as the deal can be made, the process and means is not a problem. (P.45)

This is also consistent with the findings of Trompenaars and Hampden-Turner (2012). They concluded that Chinese culture is particularistic, and encourages flexibility and adaptability to particular situations and evolving relationships. There is an emphasis on durable relationships which allows mutual accommodation, rather than weighty contracts and rigid rules. Contracts are normally only regarded as a rough guideline or approximation. They are readily modified with vague terms, and can also be renegotiated to preserve relationships where circumstances change.

Foreign customers basically stick to contracts; they focus on contracts, including strictly abiding by contracts for refunds. But for Chinese businesspeople, we rarely follow contracts strictly. We put more emphasis on flexibility and changeability. (P.43)

The practice of ignoring contracts while stressing *guanxi* and flexibility caused many ITCRM

problems for Chinese suppliers in their international transactions, particularly when they engaged in credit risk remedy, and lodged claims against foreign buyers after the occurrence of credit risk. Without formal contracts or any written documentation, they were unable to provide valid evidence for litigation or arbitration against a foreign buyers' credit default.

Contracts were not signed, or only with some orders, therefore making claims was very difficult... There was one case where the shipment had been made, and the payment method was D/A (documents against acceptance) for 180 days. Six months later, when we went to collect the payment, we were notified that the company has already closed down. There was no evidence, no contracts, no signatures, and no stamps. We were told that there was no such contract; that the business had never been done. (P.18)

This study reveals that, in the context of ITCRM situations of international trade transactions in China, relational governance may not be effective in safeguarding suppliers against opportunistic behaviours in cross-border relationships, nor in facilitating more effective exchanges in the long run. This is not in line with the findings of many previous studies (Wu et al., 2007; Dyer & Chu, 2000).

Extant research infers that under a weak institutional environment for contract enforcement, relational governance provides either a substitute or a complement for legal institutions to ensure contract execution (Heide et al., 2007; Liu, Luo & Liu, 2009; Wuyts & Geyskens, 2005; Zhou & Xu, 2012). Relational governance has been viewed as highly consistent with the national cultural values of *guanxi* in China, which stresses the importance of interpersonal and inter-firm harmony built on particularistic ties, trust, and reciprocal obligations (Peng & Luo, 2000; Xin & Pearce, 1996). It serves as a bilateral self-enforcing governance mechanism by promoting cooperation and mutual trust between transacting parties for long-term joint benefits. It plays the role of a bonding 'moral contract' between cross-border relationships (Gulati, 1995; Aulakh et al., 1996), and is expected to coordinate business exchanges through social relations and shared norms, thereby curtailing malfeasant and opportunistic behaviours (Poppo & Zenger, 2002; Zhou, Poppo & Yang, 2008).

In contrast, this study reveals that even where relationship governance on the basis of the Chinese

native value of *guanxi* was functional in relation to domestic trade, it might be dysfunctional in relation to international business, particularly in curbing and governing credit default behaviours of foreign buyers with international transactions in China. This is further confirmed through document analysis of newspapers reporting ITCR cases.

A lot of reported cases of international trade credit risk are associated with negligence of formal contractual relationships. At least 50% of export overdue or bad debts in Chinese companies were linked with ignorance of signing contracts. In these cases, many companies just had copies of customers' orders rather than formal contracts. Others, despite having signed sales contracts, were not backed up with 'secured' collateral. (Document analysis: *The Time Weekly*, 2011)

Nevertheless, this study reveals some informants were able to adapt to the new international business environment by placing more emphasis on formal contracts in controlling credit risk, when they perceived that the contract disregarding practice and relational governance was not improving the ITCR situations in international trade transactions.

The study also reveals that there are some intra-societal variations regarding the practice of contract disregarding, and *guanxi*-based relational governance. As will be reported in Chapter 7 and Chapter 8, informants hold different cultural stances and adopt different categories of ITCRM.

Those like the 'conventional' traders discussed in chapter 8, who still maintain Chinese traditional values such as *guanxi*, *renqing* and *mainzi* and have very low awareness of credit risks of foreign buyers, tend to believe that the interpersonal relationship is more important than a formal contract in strengthening sincere cooperation between transacting partners. Their beliefs are consistent with the argument of relational governance and trust-based governance, as well as the cultural values of particularism.

In contrast those, like the 'rational' traders discussed in Chapter 8, with eroding or opposing cultural stances towards Chinese traditional values and with very high credit risk awareness, tend to suggest that formal explicit contracts are more important than interpersonal relationships. They regard a formal contract as an effective remedy mechanism and binding force to control credit risk.

This kind of informant tends to perceive that the legal system is effective, and that formal contracts are enforceable to protect their business interests. They believe and may indeed have good access to dispute settlement or a remedy mechanism such as export credit insurance, which can safeguard transactions involving credit risks. This is consistent with the findings of Zhou and Poppo (2010).

Still others like the ‘bounded’ traders discussed in Chapter 8, neither consider a formal contract enforceable, nor believe that an interpersonal business relationship is trustworthy. That is, from their perspective, both contract-based governance and relational governance are invalid in safeguarding foreign buyers’ opportunistic behaviours and credit risk. They do not use any formal contracts in their business transactions because they do not perceive the legal system is credible and that a contract is enforceable. They also believe they do not have any access to the legal system for any remedy, or making claims against foreign buyers. Moreover, they do not trust any overseas business partners, because they have experienced high levels of credit risk and opportunistic behaviours, and have very high credit risk awareness. Their previously-trusted *guanxi* mechanism, or trust-based interpersonal relationship, has been exploited by some of the foreign buyers, especially by those with the same cultural ethnicity. This has led to a high level of distrust in subsequent cross-border business transactions.

A detailed discussion of intra-society variations of cultural values and practices is further explored in Chapters 7 and 8.

## **6.4 UNCERTAINTY AVOIDANCE, CAUTIOUSNESS AND PRECISENESS**

Another of the most important values impacting on almost all steps of ITCRM is the degree of uncertainty avoidance. Particularly, this value plays an essential role in CRM orientation, CR perception and awareness, CR assessment, credit granting decisions, and CR control and transfer. It has also been regarded as relevant to ITCRM improvement strategies.

Uncertainty avoidance refers to “the extent to which the members of a culture feel threatened by ambiguous or unknown situations” (Hofstede, Hofstede & Minkov, 2010: 191). Cultural members

with strong uncertainty avoidance tend to be rigid and intolerant with high stress and anxiety, and they have a strong need for tight rules, precision and formalisation. They tend to accept familiar risks but generally fear ambiguous situations and unfamiliar risks, therefore they are inclined to make conservative business decisions. In contrast, cultural members with weak uncertainty avoidance are more easy-going, relaxed and less stressed. They tend to tolerate ambiguity and differences in belief and behaviour, and their rules tend to be lenient rather than strict. They are more comfortable in ambiguous situations, where not only familiar risks but also unfamiliar risks are accepted, and they are more likely to make risky business decisions (Hofstede, Hofstede & Minkov, 2010).

Some informants with weak uncertainty avoidance tend to follow the principle of higher risks with higher returns, and this principle influences their credit risk management orientation and subsequent ITCRM decisions. As they reported, although they are aware that there are a lot of uncertainties and risks associated with credit granting decisions in some business transactions, they still prefer to be adventurous. They adopt highly risky payment methods and take on the uncertainties involved. They are also more likely to use very informal credit risk assessment, and do not rely on any financial instruments or formal credit policies to control and transfer credit risks.

In our city, we generally use open account as the payment method, this is also a kind of demand from foreign buyers. Otherwise the international business in our city would not reach such a large amount. If customers come, but we don't offer any trade credit, our business would become smaller... If we want to be bigger and stronger, we need to have a loose policy in cash flow. It's better to look at things in different ways. Offering trade credit is not always bad. If you want to expand your business, you have to take some risks, similar to investment risks. (P.21)

These informants further explained the reasons underlying their behaviours of risk-taking preference and weak uncertainty avoidance. For instance, some considered that their business could not be sustained in the long term due to the limitations in the institutional and business environment therefore, they preferred to be speculative, and engage in business transactions involving considerable risks in the hope of obtaining high profits in a very short time.

Especially for private companies with very low profits, these companies know that they cannot sustain profit for a long time... They tend to hold a short-term speculative attitude; for example, consider making some money today with the idea in mind that probably the business would be closed down tomorrow... Many companies are not willing to do this (buy export credit insurance), because most of our export has just 2-6% gross profit, even no profit at all. Even if we had 5% gross profit, after deducting all expenses, the net profit was just 1%. If I pay some percentage insurance premium then there would be no profit at all. So what's the business for? Then I would rather take a gamble. (F4.2)

Further exploration uncovered another reason underlying the high risk-taking behaviours of these Chinese suppliers. As reported by informants, there is severe competition in the international trade small commodities market, and Chinese suppliers were competing to obtain orders from foreign buyers, even taking the high risk of granting large amounts of trade credit to buyers by using the operating capital of their own companies. Several informants even drew an analogy between the business transactions and 'gambling'. They commented that in order to survive and cover all costs involved in business operations, they have to get orders first no matter how uncertain and how risky the transaction is. From the perspective of these suppliers, the only way to get the orders is to grant high credit to foreign buyers. If they refuse to grant credit to buyers, there will always be someone else who will do so.

Almost all of our business is based on open accounts (offering trade credit to foreign buyers)... If I had ten customers, then nine of them would be offered trade credit. The suppliers here in the market are rushing to do business; there is too much competition. As long as there is a supplier offering credit to the buyer, everyone offers... Whenever the order comes, everyone scrambles for it. So everyone is taking risks to earn money, to compete for this money. (P.26)

The propensity for weak uncertainty avoidance of these Chinese suppliers can also be seen from their practice of controlling risks afterwards rather than preventing risks beforehand, which leads to higher credit risk. As many informants reported, they did not have any formal credit risk assessment and risk control mechanism before the occurrence of credit risk. Many of them used to put more emphasis on countermeasures to passively solve the credit risk problems that have



occurred such as through recourse, making claims, or requesting remedies against foreign buyers, rather than proactively taking any precautionary measures to minimise credit risk occurrence.

We have a specialised risk management committee, set up for controlling risks. The committee has a meeting every week, and mainly deals with the management of accounts receivables. Not professional, and there are no formal rules or policies. We mainly deal with the risk after it has happened... Of course, we focus more on the later stages, after the credit risk has occurred. Before the risk happens, our decision-making just focuses on granting credit. (P.33)

Some informants with weak uncertainty avoidance, as previously discussed, are more likely to take risky credit granting decisions. In contrast, other informants with high uncertainty avoidance tend to be very cautious in their ITCRM decisions, and are more likely to use formal credit risk assessment and less or least risky payment methods. They tend to take a more cautious, prudent risk attitude, and to be more rigorous and careful in later business transactions. They place more stress on the values of security, cautiousness and precision, which impact on almost all steps of ITCRM (e.g. CRM Orientation, CR Assessment, Credit Granting Decisions, CR Control & Transfer, CRM Review & Improvement).

In terms of doing foreign trade, doing business, getting the money back is the most important, collecting money always ranks first. We should always be cautious, and pay careful attention to this. If you are cautious, actually you are responsible to the manufacturer, to the factory... In terms of credit risk, we must carefully observe; observe the ways of doing things by foreign buyers, and improve our alertness. (P.02)

The more cautious ITCRM practices with greater emphasis on high uncertainty avoidance, as reported by these informants, are a direct result of the changing international business environment. Along with increased awareness of credit risk (especially after the 2008 financial crisis which led to an upsurge of export bad debts), these informants transferred their business emphasis from quick expansion to business stability and continuity. The emphasis of their values hierarchies has also shifted from weak uncertainty avoidance to 'safety first'. While making these changes, they have engaged in more credit risk control and transfer activities, such as checking

the payment history of buyers, confirming negotiation details, monitoring buyers' financial information, buying outsourced financial instruments such as export credit insurance, and setting formal credit policies and procedures. All of these changes and activities have been viewed by informants as particularly important for the review and improvement of ITCRM practices of SMEs.

After the global financial crisis, I think the most important change we have made is the way we control risks, that is, we have changed from solving the problems after they happened, to preventing problems beforehand... Now we would consider everything clearly before making the delivery, or before signing the contracts... We are more cautious now; we would do less business rather than take any risks... Safety, or stability is most important, and avoiding risks is the main priority. (P.5)

China was ranked as a country with very weak uncertainty avoidance in a recent study by Hofstede, Hofstede and Minkov (2010). Bontempo, Bottom and Weber (1997) and Hsee and Weber (1999) have also contended that Chinese, when compared with Americans, were more risk-seeking and risk tolerant, particularly in the economic field or in money related risk decisions.

This study, in contrast, demonstrates that there is also an intra-cultural variation in terms of the cultural value of uncertainty avoidance. As one of the managers in the export credit insurance company reported, some informants have changed their values, and tend to have stronger uncertainty avoidance. They attach higher importance to cautiousness and precision, such as engaging in careful risk assessment, preferring safer payment methods, buying export credit insurance, undertaking more effective credit risk control and monitoring actions, examining contract details, and preserving written evidence. Others have remained unchanged in both their value priorities and their ITCRM practices.

Some companies are always very careful; as long as there is little sign of risk, they would become very cautious immediately. But for some other companies, they have no alertness, and they tend to think any way of doing business is acceptable. Therefore, this will cause different attitudes from foreign buyers (S.2).

## 6.5 LOCUS OF CONTROL

In addition to Chinese native cultural values such as *guanxi* and *mianzi* and pan-cultural values proposed by cross-cultural comparative studies like uncertainty avoidance, this study also reveals there is a dimension of ‘belief’ (locus of control) related to the ITCRM decisions of Chinese suppliers.

Locus of control is a generalised belief referring to whether or not an individual perceives a causal relationship between a reward and his or her own behaviour (Rotter, 1966, 1990). Those with a belief in external control (‘externals’) perceive themselves as passive agents subjugated to the external environment. They tend to make external attribution and believe that a reward or outcome is not entirely contingent upon their own action, but under the control of powerful external factors such as luck, chance, fate, or an unpredictable complexity of the forces surrounding them. On the contrary, those with a belief in internal control (‘internals’) perceive themselves as active agents and masters of their own destiny, and believe they are able to control or influence the external environment. They tend to make internal attribution and see outcomes as mainly contingent upon one’s own behaviour or personal characteristics (Rotter, 1966; Rossier, Dahourou & McCrae, 2005; Ng, Sorensen & Eby, 2006).

The study discovers that the locus of control plays an essential role in affecting almost all steps of ITCRM. More specifically, the internal locus of control has been found to have important impacts on steps like CRM orientation, CR assessment, credit granting decisions, CR control and transfer, and has been regarded by a great number of informants as the most important strategy for ITCRM improvement. That is, many informants believe effective internal control, such as objective credit risk assessment and formal credit risk control means, is very important for companies to overcome credit risk.

Even though our business has been covered by export credit insurance, it’s better to control risks by ourselves. There are many reasons for this, for example, the indemnity provided by the insurance company is based on certain percentage discounts, between 70 and 90%... Therefore, the risk control mainly relies on our own actions. (F2.1)

We always provide training for our staff to prevent problems occurring. Meanwhile, we also believe that all the problems can be solved with solutions... Our company focuses on internal control... Although the global financial crisis has had some impacts on the trading volume, in terms of the risk arising from payment methods, it all depends on how the company controls it. (P.39)

In contrast, the belief in an external locus of control (which is held by only a small number of informants) has also been found to have some impact on credit granting decisions, and credit risk control and transfer stages. These informants believe that credit risks are externally controlled and somewhat based on luck and fate therefore they only take intuitive and informal rather than objective and formal credit decisions. They adopt neither formal credit policies, nor any credit risk control or transfer means.

For private companies like us, it is generally very hard to survive, especially for SMEs. We are always very passive, and doing business is based on luck and fate. (F2.2)

It has to rely on the destiny. Maybe when he has some conscience, he will repay some money to me. If I became angry and made a phone call to him, it would just be meaningless. It is impossible to get the money back... Later I didn't continue chasing the money; perhaps it was my own problem too. (P. 24)

Nevertheless, in the case of buyers defaulting on or delaying payment, some externals are still able to 'negotiate with fate' (Au et al., 2012; Chaturvedi, Chiu, & Viswanathan, 2009; Leung et al., 2002), actively cope with the negative credit risk situation, and immediately take payment collection actions. Although they experience and face lots of constraints and difficulties in their export business including vicious competition in the market, lowering demand from overseas markets, and lack of credit risk management mechanism in the company, their acknowledgement of the predetermined credit risk or other fated events is not accompanied by a relinquishment of control.

If something (credit risk) happens, it is always doomed to happen, it is pre-determined. Finally, we just got to know it. Anyway, if a problem occurred, certainly my precaution strategies for the next step will begin. If this problem has happened, no matter who was

doing the business, it would happen anyway, there is no one who can foresee this before it happens. But after it happened, then we would know how to deal with it. (P.11)

In the market, there are so many dealers, how can we prevent, what kind of means should we use to prevent it, what channels could prevent it? Every day, we meet so many people, how can we prevent risks? ...For some clients, they have explained their situation, said that they had difficulties, and hoped that we could wait for another half year. Then we would work hard to recover the debts, although we would not be optimistic about it. (F3.1)

This study provides insights into within-culture variations in the locus of control and beliefs about fate. While some informants ('internals') insisted that internal control is one of the most important ways to improve and maintain effective credit risk management against clients' credit risks; in contrast, others ('externals') held a belief in external control, and considered all the risks involved in international trade transactions would be predetermined.

Still others hold a belief in a 'negotiable fate', and see the need to work with (or work around) the constraints set by fate in the pursuit of their goals. Despite encountering obstacles in the export of products and difficulty controlling foreign clients' credit risk, these informants developed a negotiable belief in fate that allows the attribution of constraints like credit risk that they face to fate. Meanwhile, they still hold a positive view about themselves and try to manage their fate in different ways, including through adherence to various superstitious practices.

Owing money is quite normal; it is a universally accepted rule, a common principle. Business is always associated with owing money. Therefore, in our city, our custom is just like that, in the morning, we won't go to collect the money back, it is still a strong principle, and another one is that we would be very busy chasing money everywhere before the New Year comes. [We keep] busy at calling to ask for money back before the New Year's Eve... This is just our custom. (P.23)

This result is consistent with the argument that individuals, within a country or culture, may experience different levels of constraint and hence vary in the extent of their belief in locus of control and negotiable fate (Au et al., 2012; Chaturvedi et al., 2009; Stephens et al., 2007).

## **6.6 BAOTUAN (SOLIDARITY AND COOPERATION)**

Another finding from the author's data analysis is that this study also demonstrates that the Chinese cultural trait 'baotuan', which has not been elaborated in extant studies, contributes to the ITCRM of Chinese suppliers. Baotuan refers to cooperation and solidarity among members of a guanxi network, such as those with kinship, friendship ties, even business and geographical links, for the purpose of forming alliances, sharing interests, and jointly resisting or controlling risks. It is a Chinese cultural trait that people join their efforts for collective commitment (Zhou & Hang, 2011). Baotuan is deeply rooted in Chinese guanxi networking and collectivism, in which guanxi provides a tightly knit social network and strongly binds people together, and collectivism promotes cooperation and group decision-making, advocates individuals' mutual protection, and safeguards common interests (Chun & Graen, 1997).

Baotuan can be viewed as a Chinese cultural value shared by people of Chinese nationality. People attach high importance to this value especially when facing harsh situations like the unfavourable business environment after the global financial crisis. Baotuan can also be interpreted as a cultural practice because it is regarded as a shared way of acting. However, there is a scarcity of previous studies investigating the Chinese cultural trait 'baotuan', apart from consideration of a similar value 'solidarity with others' which is very briefly mentioned in the study of Chinese Culture Connection (1987).

In particular, as revealed in this study, baotuan promotes information sharing and the communication of credit risk. It allows Chinese suppliers to cooperate with each other for the collection of payment from overseas buyers. Therefore, in contrast to the risk coping strategy of a single firm, baotuan strengthens the credit risk resisting abilities of a group of Chinese SMEs through stable cooperative relationships.

Baotuan contributes firstly to more effective credit risk identification, assessment and monitoring, and better credit granting decisions, through which Chinese suppliers with common ties collaboratively share and communicate credit risk information amongst each other. Soon after a foreign buyer defaults on payment to a single local supplier, this credit risk information quickly

spreads among acquainted Chinese suppliers on the business network through word-of-mouth, or electronic risk alert websites. Then other suppliers warn each other to refuse any trade credits or any future transactions with this foreign buyer.

Anyway, whenever the buyer defaults the payment and runs away, in less than three days, the website will disclose it. As long as the orders are related to this buyer, all people in the market will know. The website will announce it, and put it on their blacklist. After a bad thing happens, there is still a way to inform us... Before the development of the IT network, when this has happened, we still knew this. After all, in this market, everyone is connected with each other. We use word-of-mouth, we go to another street, and ask other people about their impressions of this buyer. (F4.3)

One informant further suggests the formalisation of a baotuan strategy in credit risk assessment and monitoring, believing this could greatly improve ITCRM abilities of Chinese SMEs.

Overall I think it is very difficult to improve the credit risk management abilities of small companies, because first, we cannot afford to go abroad for investigation... I think a reasonable strategy is that SMEs baotuan (cooperate) with each other, stick together, and set up an industrial association, which can organise all foreign trading companies together and conduct the overseas investigation. (P.45)

In addition to adopting baotuan strategy in the early stages of ITCRM such as credit risk information sharing before the occurrence of credit risks, baotuan has also been invoked at later stages of ITCRM stages such as payment collection, as well as in credit risk remedy after credit risk has occurred. Informants reported that under these circumstances where the institutional environment was not strong enough to enforce contracts, or where SMEs have little access to any formal mechanism for making claims and remedies against foreign buyers, the most effective method was to mutually cooperate with each other or follow other bigger companies to collect bad debts overseas or jointly engage in litigation.

Once, a foreign buyer imported a dozen containers of goods. Because of the long shipping distance, it needs almost one month to reach the destination. The buyer bought different goods from different suppliers, based on various periods of trade credit, such as half month,

or one month, etc. When the goods were still in transportation, about six days into the transport, I got to know the problem that it's very difficult to get money back [from this buyer]. Therefore, I ran around to persuade all the suppliers to make a claim jointly... Finally, we got the goods back, and everyone got their goods back. Although we needed to share the freight, the losses were smaller. (P.23)

## **6.7 ORIENTATION TOWARDS TIME HORIZON (LONG- VERSUS SHORT-TERMISM)**

This study reveals that their orientation towards a time horizon is particularly relevant to the ITCRM of Chinese SMEs, especially in the stages of credit granting decisions, and credit risk management review and improvement.

People from different cultures approach time differently and there are different subcomponents regarding time such as whether time orientation is monochronic or polychronic (sequential or synchronic) (Hall, 1976), whether the sense of time is past, present or future oriented (Kluckhohn & Strodtbeck, 1961), or whether the time horizon is long or short (Trompenaars & Hampden-Turner, 2012).

Time horizon refers to people's perception about the magnitude of time horizon, and their common understanding of the duration of thinking time, that is, whether people share a short-term or a long-term time horizon within their culture. An example of time horizon is whether we plan for a longer time such as 5-10 years, or for just a few months. The time horizon discussed here should be not be confused with the long- vs. short-term orientation (also known as Confucian dynamism) proposed by Hofstede, Hofstede and Minkov (2010: 239), who defined long-term orientation as “the fostering of virtues oriented toward future rewards—in particular, perseverance and thrift” and short-term orientation as “the fostering of virtues related to the past and present—in particular, respect for tradition, preservation of face and fulfilling social obligation”.

According to Trompenaars and Hampden-Turner (2012), the Chinese were found to possess a longer time horizon, similar to Japanese and South Korean cultures. In contrast, this study discovered that the credit risks of many Chinese SMEs were associated with short-termism



oriented behaviours in their business operation and ITCRM decisions. A ‘short-termism’ orientation leads some Chinese suppliers to make quick credit decisions, and offer trade credit in order to get the orders whilst ignoring the long-term benefits and risks of the companies. Therefore, some informants suggest that in order to improve ITCRM practices and make better credit decisions, suppliers should focus beyond the short-term results and, for example, avoid quickly signing contracts without considering future risks.

First, check yourself; you cannot make a rush for quick results. There are too many firms striving for orders, and very anxious for success... When these companies experience credit default of some buyers, they still think about rushing for the orders from these buyers. They think about starting production first, rather than considering future potential risks... If these suppliers were cheated today, they would do the same business again tomorrow, they just focus on very short-term results regardless of near future results. (S.1)

Nevertheless, due to the importance of *guanxi*, some Chinese suppliers are somewhat long-term oriented in some of their ITCRM decisions. For example, as mentioned by some informants, they are reluctant to send reminders or take immediate actions against foreign buyers during the payment collection stage, because of their consideration regarding the long-term relationship with foreign buyers and long-term development for their companies.

As long as the foreign buyer hasn’t closed down, we generally would just let it go... For example, if we made a call to the foreign company and found that its business still maintained its normal operation. And if the credit amount was not very big, for instance, if it didn’t exceed USD50,000. Under this sort of circumstance, we would wait rather than chase the payment immediately... We mainly consider long-term cooperation, the long-term relationship. If we took a strict countermeasure against the buyer, then we could not do business in the long run, right? (P.34)

This study reveals that there are intra-cultural variations in terms of orientation towards the time horizon. While some suppliers take very short-term oriented credit decisions, others tend to focus on more long-term oriented practices in ITCRM decisions. The study further reveals that the practice of long-term or short-term orientation is dependent on particular types of decisions

involved, such as the influence of culture on individuals' behaviours, and is domain-specific (Hong & Mallorie, 2004). As further elaborated in Chapter 8 when discussing 'bounded' traders, they tend to take very short-term oriented behaviours in credit decisions, but still consider the long-term relationship with foreign buyers.

## **6.8 DISCUSSION AND CONCLUSION**

This study contributes to a better understanding of the role of culture on ITCRM practices of local suppliers in China. Various cultural factors have been discovered to be associated with Chinese suppliers' ITCRM in international business, including: 1) Chinese native cultural values such as *guanxi* (interpersonal relationship), *renqing* (reciprocal obligation), *mianzi* (face), *baotuan* (solidarity and cooperation), harmony, and forbearance; 2) cultural practices such as contract disregarding; 3) beliefs such as locus of control. In particular, informants who hold traditional cultural values with weaker uncertainty avoidance, belief in external control and disregard of formal explicit contracts, are more vulnerable to credit risks involved in international trade.

This study argues that in addition to cultural values which have been popularly used in cross-cultural comparative studies (Hofstede, Hofstede & Minkov, 2010; House et al., 2004; Trompenaars & Hampden-Turner, 2012), other elements of culture (general beliefs and cultural practices) also play an important role in influencing international business behaviours, particularly ITCRM decisions in this study.

Based on the higher than average rate of credit risks in Chinese international business, it would seem that few if any of the formal ITCRM strategies are being used by some Chinese suppliers. Should this study then propose that all Chinese suppliers have an overreliance on traditional, native culturally informed approaches to doing business— approaches that were functional in relation to domestic trade, but are dysfunctional in relation to international business? Do the results of this study lead to the conclusion that the national culture determines the business behaviour of all cultural members? The results of this study dispute those contentions. Even though culture continues to shape behaviour long after the originating circumstances to which that

behaviour was a functional response have changed, the grip that culture has on its members can sometimes be broken.

As mentioned above, the study shows evidence that there are intra-cultural variations in terms of the influence of *guanxi*, locus of control, uncertainty avoidance, and orientation towards time horizon, in terms of their influence on ITCRM practices of local suppliers. Further investigation of ITCRM practices in China shows that local suppliers are adapting their behaviours to new circumstances, in ways that run counter to the norms of native Chinese culture. This situation provides us with an opportunity to search for explanations which we hope will deepen our theoretical understanding not only of what culture is, but also of how its hold can be loosened when people have to place effectiveness ahead of compliance. Chapter 7 explores the development of various cultural stances, which leads to intra-cultural variations, as a result of the dynamics of cultural values at the individual level.

Similar to the findings of Hong and Mallorie (2004), this study highlights the importance of the applicability of cultural values in particular situations. That is, the practice of cultural values on ITCRM decisions by individuals depends on whether the cultural values are applicable to the particular situation. For example, when foreign buyers are still new buyers without previous transaction histories (*sheng-ren guanxi*), Chinese suppliers would not apply the principles of *guanxi*, *mianzi* and forbearance in credit-granting or payment collection decisions, but rather engage in direct confrontation with foreign buyers. In contrast, after several months' business transactions through which the business relationship evolves into *shou-ren guanxi* with affective bonds, local suppliers tend to apply *guanxi* and other native values in their ITCRM decisions.

Furthermore, this research also contributes to an understanding of cultural practices. Previous studies (such as the GLOBE study of House et al., 2004) contend that cultural practice is the direct consequence of corresponding cultural values alone. For example, in terms of contract signing practice, Trompenaars and Hampden-Turner (2012) argue that members of certain cultures such as the Chinese do not strictly conform to legal contracts because they value particularism. In contrast, this study discovers that the development of cultural practices such as contract disregarding, may not be the consequence of cultural values alone, but rather a result of various factors including institutional, economic, and cultural. It is also clear from this author's

data analysis that when the phenomenon of managing credit risk occurs within an international context, its features take on complexities that cannot be explained by standard economic theory alone independent of cultural theory, nor by cultural theory alone independent of economic theory. Further exploration of these complexities is provided in Chapter 8.

## **CHAPTER 7**

### **SIX ALTERNATIVE CULTURAL STANCES TOWARD NATIVE CULTURAL ATTRIBUTES**

Chapter Six aligned a wide range of cultural beliefs, values, and practices against the total set of ITCRM practices. As a consequence of that alignment, the author has not only established that culture can have a powerful impact on ITCRM but also has presented research findings which go significantly beyond previous literature which aligns a far more limited range of cultural beliefs, values, and practices against domestic CRM rather than ITCRM.

Change was not the focus of Chapter Six, but change is central to what is occurring within the research site: change as an outcome of experience occurs in all business environments, domestic and international – but the international context provides a unique opportunity to deepen our understanding of what occurs when individuals and organisations are faced with new cross-border situations in which their historically developed (and culturally sanctioned) business practices are suddenly dysfunctional. This chapter therefore presents the author's findings in relation to research questions two and three: 'In what ways do ITCRM situations and experiences change the cultural values and practices of local SME suppliers in China?' and 'In what ways do these local suppliers in China reflect the attributes of the original national culture?'

Cross-cultural comparative research (Hofstede, 1980, 1991; House et al., 2004) has been a dominant approach for the last several decades. It regards culture as relatively static and suggests that members of a society broadly share a consensus of cultural values which are chronically accessible. This study, in contrast, builds upon recent developments in culture theory and assumes that: 1) culture is not completely shared in a society and that intra-cultural variations exist within a society or country so that people may hold different cultural stances towards national cultural attributes (Brannen & Salk, 2000; Brannen, 1994, 2009; Caprar, 2011; Faure & Fang, 2008); 2) culture and cultural values are not static, but rather they are dynamically created, shared, internalised, and reproduced among interconnected individuals (Erez & Gati, 2004; Chiu & Hong, 2006; Bardi & Goodwin, 2011; Allen et al., 2007; Sheldon, 2005); and 3) the influence of culture on individuals is not coherent, consistent and chronically accessible, but contingent upon situations and processes that are differently cued and activated (Hong & Chiu, 2001; Oyserman &

Sorensen, 2009; Hong et al., 2000; Hong & Mallorie, 2004; Hong, 2009; Gelfand, Nishii & Raver, 2006; Morris & Gelfand, 2004).

This study reveals that the experiences and circumstances of international trade, particularly the ITCR situations explored in this research, provide Chinese local suppliers with 1) an opportunity to be exposed to, and learn new cultural repertoires; 2) cues and triggers that lead them to select and enact particular repertoires; 3) crises and complexities which motivate them to engage in an effortful change in their cultural values.

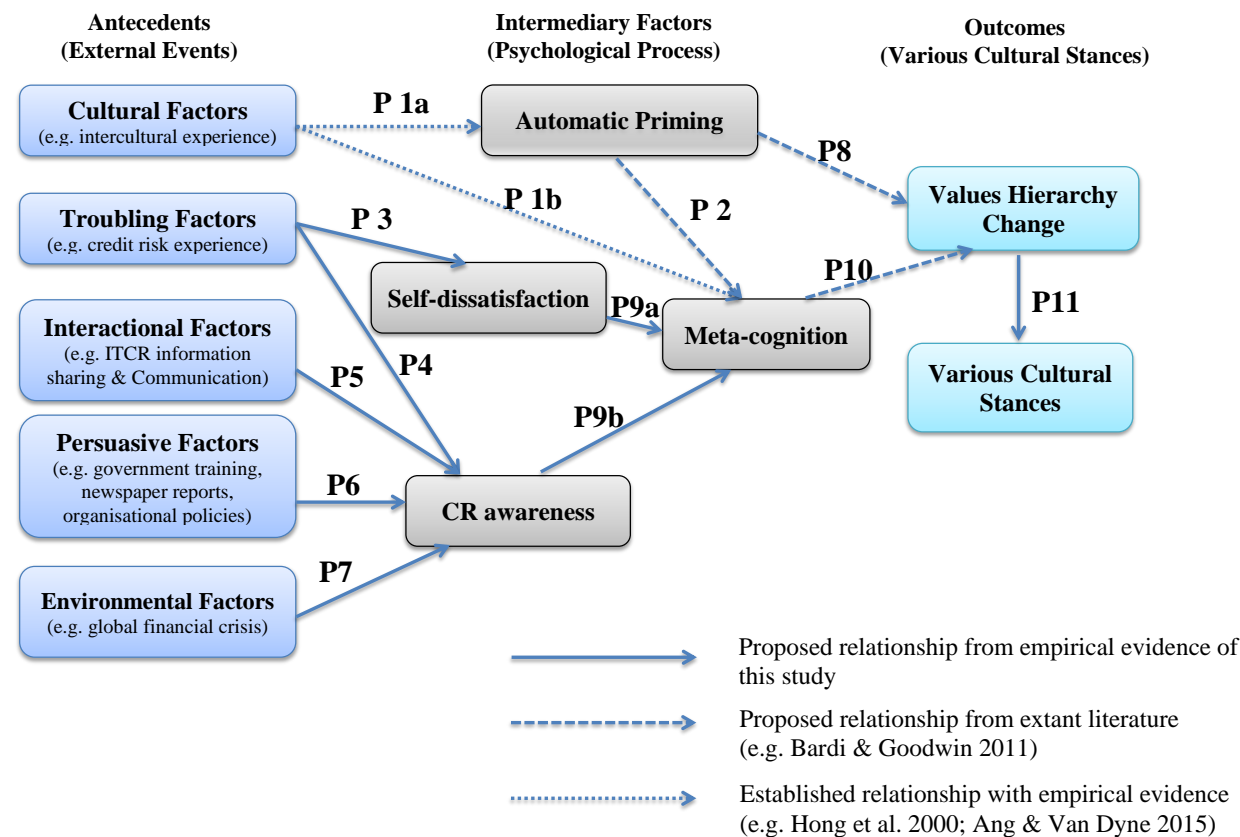
Once again, the findings presented in this chapter include brief extracts from the author's interview transcripts, not only to provide deeper meaning but also to support the author's claim to have arrived at a justified interpretive analysis of the data. The author's approach to interpreting her data was based upon a systematic moving to and fro between the data as meaningful, and the real-world situations and experiences of supplier/traders as the challenging context within which the meaning of that data was constructed by interviewees.

That iterative, interpretive process of moving between the data and extant literature, enabled the author to revisit the literature-based model of how intra-individual values change occurs (Figure 2-1), and develop a significantly more comprehensive and enriched process model (Figure 7-1) which provides a deeper understanding of the intra-individual values change being experienced by local suppliers in China as they respond to both cultural clashes and business complexity, as well as crises arising from ITCR situations in the international business context. This enlarged process model is one of the key contributions to theory made by the author as an outcome of her empirical research and interpretive analysis.

The concepts and relationships presented in the process model are discussed in more detail in the following section, together with testable propositions. As shown in Figure 7-1, some of the relationships and propositions (i.e. P 1a and P 1b) have been established in previous research with empirical evidence; others (i.e. P2, P8 and P10) are literature-based but have been refined in this study; and the rest (i.e. P3, P4, P5, P6, P7, P9, P11) are proposed relationships drawn from the empirical evidence gathered for in this study. For the purpose of clearly explaining the findings of this chapter, and explaining the refined and enlarged process model with propositions in sequence, P3 in Figure 2-1 has been restated as P8a in the refined model of Figure 7-1; and P4 in Figure 2-1 has been recoded in the refined model as P10. It should be noted that this model reflects the fact that values change can occur either through an automatic priming process as a result of frequent cultural exposure, or from an conscious effortful change process requiring metacognition as a result of self-dissatisfaction or increasing awareness of international business complexity and is

impact on credit risk. Furthermore, various combinations of diverse drivers (external events) and varying routes of values change lead to different cultural stances.

In addition to explaining the external drivers (antecedents) and the psychological processes (intermediary factors) of values change, this study further elaborates the ways that informants develop different cultural stances towards their original national cultural attributes (outcomes). As illustrated in Table 7-1, six cultural stances taken by informants (maintaining, reflecting, eroding, opposing, minimising and switching) are revealed and discussed. The study found that some local suppliers (with an opposing cultural stance) adapted their values and behaviour to new circumstances, in ways that run counter to the norms of native traditional Chinese culture. Nevertheless, there are other suppliers (with reflecting and eroding cultural stances) who only partly adapt their values. Still others do not appear to adapt at all, and still maintain their traditional values. Still others, those with a switching culture stance, are able to switch between different cultural categories and act appropriately contingent upon the situation. This study also explores the reasons and causes which account for these variations in adaptation and the differing cultural stances.



**Figure 7-1 A Refined and Enlarged Process Model of Dynamic Values Hierarchy and Development of Cultural Stances (Both Literature-based and Empirically-based)**

## **7.1 ANTECEDENTS: EXTERNAL EVENTS**

Values are organised in a hierarchy with different priorities, so that any change in one value, leads to changes in the hierarchy of other values (Rokeach, 1973; Bardi & Goodwin, 2011). Several intra-individual changes of informants toward native cultural values and practices were revealed and described in Chapter 6.

In interviews and focus groups, informants indicated a great deal of values change, as they described moving away from Chinese traditional native values such as *guanxi*, *mianzi*, *renqing* and forbearance, and focussing more on higher uncertainty avoidance, cautiousness and precision.

The empirical qualitative data revealed that the process of values hierarchy change is driven by a range of external events labelled in the process model as: cultural factors, troubling factors, interactional factors, persuasive factors, and environmental factors.

These factors can lead to an automatic cognitive process in which alternative cultural categories become available, accessible, and activated. People adapt certain values through exposure to cultural stimuli (a process similar to cultural priming). Alternatively, adaptation can result from a conscious, effortful metacognition process in which informants, with increased credit risk awareness or a sense of self-dissatisfaction, face challenges in practicing pre-existing values and motivate themselves to undertake a change in values.

### **7.1.1 Cultural Factors**

Cultural factors refer to the informants' exposure to various cultures other than the Chinese culture in ITCR situations. These factors not only provide informants with foreign cultural stimuli, but also through their daily international trade transactions, informants are granted temporary or chronic accessibility to these cultures (Hong et al., 2000).

#### ***7.1.1.1 Foreign Cultural Exposure Leads to Automatic Priming Process (Temporary Accessibility)***

Initial exposure to the stimuli and cues of a foreign culture provides informants with an opportunity to temporarily access the knowledge of this culture in their immediate context. This involves informants in an automatic cognitive process similar to cultural priming (Morris & Gelfand, 2004; Hong et al., 2004). Through a recent incident of intercultural business experience (which provides priming cues), a particular type of cultural knowledge may become highly accessible to informants.



One informant reported his first experience of the United States of America, as a results-oriented culture with high individualism (Hofstede, Hofstede & Minkov, 2010) which differs greatly from Chinese guanxi (interpersonal relationship) culture.

When I went on a business trip to the United States, I always travelled in taxis. There was no one to pick me up, or offer me a warm reception. They (Americans) are unlike Chinese people. We place more stress on the way we deal with people, of getting along with others, and we pay attention to interpersonal skills, and always try to be there to help you... There are some cultural differences, for example, Americans think business is business, generally without any affection. They always put their interests in the first place. (P.02)

Although initially these values (individualism, results-oriented) were not particularly important to the informant, this incident automatically activated an awareness of results-oriented values. This automatic activation may temporarily strengthen individualistic, result-oriented values in the informant's schema, and enable that informant to make a transitory value change (Bardi & Goodwin, 2011).

#### ***7.1.1.2 From Temporary Accessibility to Chronic Accessibility (Long-Term Change)***

Through repeated cultural exposure over years of daily practice in international trade transactions, and frequent communication with foreign buyers, cultural knowledge becomes more accessible to an informant in the long term. This process leads to a chronic change in values and behaviours (Bardi & Goodwin, 2011). As the informant below commented, traditional Chinese values such as guanxi, renqing, and mianzi no longer seem so important.

Foreigners pay more attention to their interests or benefits. Sometimes we have had quarrels with our American customers, but after things have quietened down, we would start talking cheerfully and laughing. We all do business equally, as long as there's money to be earned, we needn't make too many compromises, or consider anything much about mianzi (face)... (P.02)

#### ***7.1.1.3 Foreign Cultural Exposure Leads to Metacognition***

In addition to an automatic cognitive process as a result of foreign cultural exposure, informants may engage in metacognition, which can also lead to a change in values. In daily international trade transactions, foreign buyers may frequently interpret or undertake business employing values which differ from Chinese traditional values. This process makes certain values, such as precision and universalism salient, resulting in Chinese suppliers gaining greater awareness of

values which may challenge their pre-existing native cultural values such as guanxi and flexibility.

Through repeated exposure and interaction with foreign buyers, Chinese suppliers may begin to actively think about these alternative values and their implications for their behaviour. Such thoughtful consideration leads to metacognition by informants, who may then adjust the importance of pre-existing values.

In terms of cultural differences, foreigners or westerners normally stick to rules or regulations. In contrast, Chinese generally do things in a casual and flexible way. For example, regarding the confirmation of products, they always insist on making the products strictly in accordance to a standard... They are more stringent; they focus on preciseness. So this also leads to some changes in our minds. With regard to the credit risk, we would control it more stringently and strictly than before. (P.15)

In recognition of these assumptions, propositions 1a and 1b are revised with some small amendments based on this study, and proposition 2 is restated from the literature-based model.

***Proposition 1: Exposure to cultural factors such as foreign cultural cues or stimuli in international business context leads to (a) an automatic priming process and (b) an effortful and conscious metacognition process of values change for local suppliers.***

***Proposition 2: Exposure to cultural factors that results initially in an automatic process, can lead to conscious contemplation of values, which constitutes an active metacognition process resulting in values change.***

### **7.1.2 Troubling Factors**

‘Troubling factors’ refers to the difficulties and problems involved when practicing certain traditional cultural values. These difficulties cause the individual to be confronted with an inconsistency between their expectations and the consequences of behaving in accordance with these values. Particularly in this study, a personal experience of credit risk caused informants either to feel self-dissatisfied or to achieve greater credit risk awareness, which may motivate them to engage in metacognition and make an effortful change in their values.

Some informants initially held and frequently practiced traditional Chinese cultural values like guanxi, mianzi, renqing, and forbearance in their ITCRM situations. However, along with the

occurrence of credit risks, Chinese suppliers were cast in a negative light when their values did not work well in ITCR situations. There was thus an inconsistency between the ranking of their initial values and the new risk situation. Their ITCR experience tended to counter the perspective these informants originally held, and prompted them to think about their values. After experiencing self-dissatisfaction and perceiving a negative view about themselves, informants may persuade themselves that their original values were not appropriate, and consider whether they should practice these values as before. This drives informants to engage in a process of metacognition (Dunlosky et al., 2007; Wegener & Carlston, 2005) and a conscious, effortful change in their values (Bardi & Goodwin, 2011).

A Chinese local supplier recalled his distressing experiences in payment collection from foreign buyers and concluded that doing business should not involve any *ganqing* (affection), *renqing* (reciprocal obligations) and *guanxi* (interpersonal relationships).

Our reliance on subjective judgment about credit risk has lessened, mainly due to several previous losses. Once bitten by a snake, one shies at a coiled rope for the next ten years (Chinese proverb). Originally, I did business based on a lot of subjective judgment. After so many years, I finally got to understand that my original approach was wrong, and I changed my mind. Sometimes, we cannot be too serious and emotional in business. Now I know that we shouldn't involve too much emotion in the business, or place too much stress on *renqing*. For example, some buyers from certain countries always use the words 'brothers or sisters' when they address us, but we shouldn't take it too seriously, shouldn't misinterpret this as based on Confucianism. What they refer to are not brothers and sisters, it's just a pet phrase they use. (P.38)

***Proposition 3: Exposure to external troubling factors such as personal experiences of ITCR in international business context leads to feelings of self-dissatisfaction, which in turn contribute to effortful and conscious metacognition by local suppliers.***

Experiences of credit risk increased awareness for some informants and also encouraged them to think about their existing values of *guanxi* and *renqing*. A single credit risk event might challenge an informant's existing values on a sole occasion and cause temporary metacognition and change in values. However, unless an individual develops a feeling of self-dissatisfaction, a single credit risk experience is not usually sufficiently significant or painful enough to encourage informants to think consistently about their values. The informant may continue to exhibit their original values

in their ITCRM behaviours and decisions. Only with repeated exposure to credit risk or a triggering event (details are discussed in the section on environmental factors), does a change in values such as attaching greater importance to the values of cautiousness and uncertainty avoidance, become reinforced and lead to long-lasting change.

We have experienced a lot of bad debts in the past, so we have gradually learned from these lessons and become wiser. We have become much more stringent and rigorous and stick to the rules much more, such as the rules about export credit insurance... We put more and more emphasis on risk control, especially after the global financial crisis, and we feel that risk control is really necessary... We have learned how to protect ourselves, and our risk avoidance abilities have improved. (P.1)

***Proposition 4: Exposure to external troubling factors such as personal experiences of ITCR in international business leads to heightened credit risk awareness, which in turn contributes to an effortful and conscious metacognition process of values change for local suppliers in the case where the troubling factors are significant and repeated.***

### **7.1.3 Interactional Factors**

Since culture is “produced, distributed, shared, internalised, and reproduced among a collection of interconnected individuals” (Chiu & Hong, 2006: 31), information sharing and communication of cultural knowledge and practice among cultural members is a very important mechanism for cultural values to be reproduced and modified. In this study, the term ‘interactional factors’ refers to information sharing and communication of credit risk-related values, practices and experiences among Chinese suppliers, their associates and acquaintances.

For some suppliers who have not personally experienced ITCR, the process of information exchange contributes to higher ITCR awareness, and makes certain values such as safety, cautiousness, and uncertainty avoidance, become more salient. Information exchange also engages some Chinese suppliers in deep consideration of their values, leading to metacognition.

Through frequent exchanges of ITCR information, especially discussion about those ITCR cases which have involved their close associates or friends, informants’ initial values hierarchy grows unstable. Some values are emphasised and upgraded to a higher level, resulting in a values hierarchy change. With every reminder and exchange of information, a temporary values change

is likely to be reinforced until the new values hierarchy becomes more stable than the previous one leading to a long-lasting change in values.

As reported by the following informant, values such as uncertainty avoidance, cautiousness and safety are now ranked as more important and these are associated with increased awareness of ITCR.

In addition, our company has a lot of channels to gain information... I have heard many cases regarding credit risk where the money couldn't be collected. Therefore, we were gradually learning from these cases. Now the entire company has a commonly-shared software network platform. All information about exports and debts are shared on this platform... We are able to get more complete information now, so our alertness has also improved, and general wariness has increased. (F2.1)

Some informants have personally experienced ITCR cases only to a minor extent, which may have initiated some consideration about related values. However, this contemplation and any resulting challenge to values may be temporary, because values are central schemas which tend to resist change (Bardi & Goodwin, 2011).

Through frequent exchanges of ITCR information with other members of their culture such as through friends, business contacts, and other suppliers, similar examples of ITCR cases may repeatedly remind the individuals about their previous experience of ITCR cases and the importance of high uncertainty and risk avoidance. Such experiences provide regular challenges to an individual's values structures and lead to repeated experiences of metacognition. That is, frequent and repeated information sharing and communication contributes to the chronic accessibility of these alternate values to members of this group. It is notable that the Chinese cultural trait of 'baotuan' involving cooperation and solidarity, contributes to the process of information sharing and communication (as discussed in Chapter 6).

Before internet networks became so developed, when such a thing happened, everyone would still find out about it. After all, in this market, we have tight links and connections; we are not isolated. For example, we know lots of information through word of mouth, such as who has purchased what kinds of products. We could also go to another street and ask for information about a particular client, we would ask about their impressions of this client. (F4.1)

***Proposition 5: Interactional factors such as information sharing and communication of credit risk-related values and practices lead to heightened credit risk awareness, which in turn***

*contributes to an effortful and conscious metacognition process of values change by local suppliers where these interactional factors are frequent and repeated.*

#### **7.1.4 Persuasive Factors**

In addition to interactional factors, persuasive factors also lead to an increase in an informant's awareness of credit risks, which may prompt them to engage in meta-cognition and values change. In this study, persuasive factors include the training and education programs offered by government and financial institutions; public media messages and local newspapers regular reports on export bad debts; risk management seminars organised by export credit insurance companies for Chinese suppliers; and electronic risk-alert websites operated by local police offices. These attempts at persuasion directly bring certain values such as safety, cautiousness, risk avoidance, and preciseness into awareness, and prompt informants actively to attach importance to these values in their related ITCRM practices.

We have published a lot of export bad debt cases in the newspapers, not only to advertise our insurance products, but also to alert exporters about the risks. If you go to the wholesale market, you will see our LED screens displaying information about credit risk...we also distribute brochures to alert suppliers. (S.3)

Sometimes, the export insurance company or the banks provide us with some training or professional seminars. In the beginning, we are a little bit confused, but over time, we more or less understand some of this knowledge...Our company also distributes some manuals about how to deal with credit risks...(P.04)

Nevertheless, the influence of direct persuasion factors in changing values may meet resistance from individuals when values are part of a central schema which is difficult to change (Brewer & Roccas, 2001; Rokeach, 1973). As reported by the following informant, initially she resisted change to her risk-taking behaviours as a result of direct attempts at persuasion from corporate leaders and company policies. Only after a triggering event in the outbreak of the global financial crisis, along with her personal experience of credit risks, did her resistance disappear, and she began to place more emphasis on safety and cautiousness in ITCRM.

The export credit insurance company already provided the service to us for a long time, mainly because our boss has a good relationship with them. In the early years, we really resisted insurance and paying so much for insurance premium, because it was very rare to see any bad debts, any losses... But we have no choice, because they are our bosses, our

leaders, just like they are fathers, we are sons... But after the financial crisis, bad debts suddenly increased... Now we feel very lucky...and generally we get the money we have claimed back very quickly. (P.04)

This case suggests that direct persuasion factors may not work alone, but may strengthen a change when they act together with other factors. Furthermore, individuals may change their behaviours and practices first, followed by any change in values at a cognitive level. In hierarchical cultures like China, individuals may immediately change their behaviours as a result of direct persuasion in order to conform with authority such as requests from upper level management to comply with organisational ITCRM rules, and compulsory credit insurance cover, but this may happen without an accompanying change in values.

This case also highlights the importance of a triggering event, for instance the personal experience of credit risk cases (troubling factors) or the global financial crisis (environmental factors), and implies that direct persuasive factors may become more effective and successful when working together with these other factors.

***Proposition 6: Persuasive factors such as government training lead to heightened credit risk awareness, which in turn contributes to an effortful and conscious metacognition process of values change of local suppliers particularly where other external factors are at work.***

### **7.1.5 Environmental Factors**

Changes in external environmental situations are likely to result in individuals' adaption and values change (Bardi et al., 2009; Bardi & Goodwin, 2011). Particularly in this study as reported by informants, the outbreak of the global financial crisis in 2008 provided new and challenging environmental conditions for informants in the form of an international business environment with soaring credit risks (Zhou & Hang, 2011).

When the financial crisis came, it was really horrible. During that time, we didn't dare do business; even the banks collapsed...(P.01)

The financial crisis actually gave us some very good lessons about risk education. Many big companies were bankrupted. So if we didn't have any protective measures, we would have been affected. Therefore, the global financial crisis actually transformed from a bad thing into a good thing. (P.05)

This new business environment increased the informants' ITCR awareness, and challenged their pre-existing values based on *guanxi*, *renqing*, and forbearance, because these values may not have been relevant in the new business context. Pursuing these Chinese traditional values could be frustrating. With greater ITCR awareness, informants start to actively think about their values and engage in metacognition. Some informants began to downgrade the importance of Chinese traditional values such as *guanxi*, *mainzi*, *renqing*, and forbearance, which could no longer be pursued in the new business environment. They began to emphasise values such as higher uncertainty avoidance, cautiousness, safety, and results-orientation that were more suited to the new business environment. That is, they actively engaged in adjusting the ranking of their values.

We still had several overdue accounts after the outbreak of the financial crisis. We were still in the process of collecting payment, still chasing. Those were basically with good friends, because sometimes you thought they were trustworthy, so you were willing to take risks, and the result was bad debt... So I began to think that *guanxi* must not be a consideration in our trade. (P.05)

Significantly, many informants reported that values change transferred from 'small-scale incremental alterations' to 'large-scale radical change' soon after the 2008 global financial crisis. The outbreak of the financial crisis as a factor in environmental change was a 'triggering event' in expediting a values change process.

From our data, after the outbreak of the financial crisis, credit risk increased exponentially. Before the financial crisis, it increased by 30 billion, but after 2008, the increase reached 84 billion—it much more than doubled... During that time, there were a lot of telephone calls from foreign trade companies, because they had never experienced such a situation of financial crisis. It seemed that all companies were in a panic... All companies, no matter whether they were small, medium or large companies, bought insurance...all triggered by the credit risk arising from the financial crisis. (S.1)

As discussed in previous sections, values are central to schemas and therefore are resistant to change. A single ITCR event may challenge certain values once and cause a temporary change but without repeated exposure to credit risk, and chronic accessibility to new values, the original values structure is likely to continue to affect behaviours and practices (Bardi & Goodwin, 2011). Furthermore, some factors such as persuasion may not be effective when taken alone.

The triggering event, the outbreak of the global financial crisis and its concomitant frequent ITCR events, not only provided informants with repeated accessibility to certain values such as high



uncertainty avoidance, and overcame the resistance in the adaptation of central schemes, but also preserved this initial values change, thereby promoting a long-term change. Some Chinese suppliers, through previous exchanges of ITCR information or a single ITCR event, already held ITCR awareness to a certain extent, and thought more about relevant values probably with a degree of metacognition. Consequently, the single event of the financial crisis and concomitant ITCR events were sufficient to cause rapid and permanent changes in values.

There are big changes. Before (the financial crisis), when trading with large foreign companies, we were quite relaxed... Generally, our policies were very loose. But after the financial crisis, our awareness of risk prevention increased, improved a lot. This was not a small change, in fact, it was a thorough change in all our minds... Another important change, after the financial crisis, was our approach to solving problems. Before, we normally dealt with the problems afterwards, that is, after something happened, we then thought about how to deal with it, and went to solve it. Now we generally do it beforehand, before signing the contracts, we would consider everything clearly, carefully... Now we are very cautious, we would rather do less business, but be more concerned about risks... Safety is the most, most important thing. (P.05)

The rapid change after the triggering event can also be attributed to an increasing need for certain values such as higher uncertainty avoidance, safety, cautiousness, and internal control during and after the global financial crisis. The adverse business environment may have created a greater need for these values. It rendered these values more adaptive, and led to an increase in the importance of these values. At the same time, Chinese traditional guanxi-related values became less adaptive, and their importance in the values hierarchy was downgraded.

With increasing numbers of reported cases about credit risk, my cautiousness also gradually increased. In the early years, we didn't have any idea about credit risk... But the international situation changes, there was increasing credit risk, and the credit insurance companies have a market now. So we put more and more stress on the risk control, mainly after the financial crisis, and feel that risk control is really necessary... At present, we mainly rely on investigation from the export insurance company, if a buyer would not receive approval from the export insurance company, we generally would not do business... (F2.1)

***Proposition 7a: Environmental factors such as changes in the business environment lead to heightened credit risk awareness, which in turn contributes to an effortful and conscious***

*metacognition process of values change for local suppliers in the case that pre-existing values are not adaptive to the new environment.*

*Proposition 7b: A triggering event such as the outbreak of the global financial crisis expedites a values change process through effortful and conscious metacognition, and reinforces and strengthens previous values change driven by other external factors.*

## **7.2 INTERMEDIARY FACTORS (PSYCHOLOGICAL PROCESSES)**

As already noted in this chapter, values change can occur either through automatic or effortful routes (Bardi & Goodwin, 2011). The findings of this study support Bardi and Goodwin's conclusion and demonstrate that values change can occur either through an automatic cognitive process as a result of cultural exposure which later provides efficacy for cultural priming, or through a conscious, effortful self-motivated process of metacognition. More needs to be said about those alternative intermediary factors because they provide the central mechanism of the values change process.

### **7.2.1 Automatic Priming Process Leading to Values Hierarchy Change**

Values change may occur when individuals are exposed to the cues of a new foreign culture other than that of their home culture (Chinese culture in this study). This exposure can lead to an automatic cognitive process which is in its turn activated by cultural priming (Bardi & Goodwin, 2011). For the purpose of explaining the refined process model and propositions in sequence, the following proposition 8a is restated from P3 of Figure 2-1 which is based on the extant literature of cultural values change (as discussed in the Chapter 2):

***Proposition 8a: Priming as an automatic cognitive process leads to intra-individual values hierarchy change.***

The effect of cultural priming on values change tends to be temporary and may meet resistance. When values are part of central schemas they are difficult to change, leading to a relatively stable ranking order of an individual's values hierarchy. Nevertheless, a cultural priming effect on values change can be very salient and long lasting as for example when there has been frequent repeated priming (Bardi & Goodwin, 2011).

The informants of this research demonstrated varying types of values change. Some informants tend to modify their values hierarchy more readily as a result of exposure to cultural primes. Some

have difficulty and resist change. Others are more likely to adopt a dominant interpretative schema counter to Chinese traditional values (collectivistic relationship-oriented vs. individualistic result-oriented). Still others behave as biculturals and multiculturals who have two or more internalised cultures, and switch between different cultural categories to act appropriately according to different situations.

Further examination of the data by the author in conjunction with a re-reading of extant literature revealed that the effect of cultural priming on values change through exposure to alternative cultural cues is dependent on several moderation factors, including the frequency and duration of cultural priming, the foreign language competencies of individuals (Chinese suppliers), the type of cultural exposure, and motivational orientations.

#### ***7.2.1.1 Moderation Factor (Frequency and Duration of Cultural Priming)***

The effect of cultural priming is dependent on the frequency and duration of priming or cultural exposure. Values change as a result of a single occurrence of cultural priming is likely to be temporary. However, if individuals are repeatedly exposed to priming from the new alternative cultural category, for example, through continuous international business transactions occurring on a daily basis, a more permanent change in values may take place. This is because through frequent and long-lasting cultural priming, individuals achieve chronic accessibility to this culture, resulting in the activation and strengthening of the new values hierarchy which becomes more salient and dominant in affecting behaviour and practices.

Well, the headquarters of our company is also located in the US. Relatively speaking, we have more business with US buyers, and it's easier to handle... Generally, we don't have much business with other countries, very little cooperation with buyers from other countries, so we are not familiar with their styles... We rarely use Chinese e-commerce websites, because we mainly do business with Americans, so we normally have our advertisements on American websites such as "Global Resources"... We tend to use the American style of thinking to deal with problems... We have our advantages; just follow the American style of thinking. (P.39)

***Proposition 8b: The effect of automatic priming on intra-individual values change is moderated by the frequency and duration of cultural priming.***

### **7.2.1.2 Moderation Factor (Foreign Language Competency)**

The foreign language competency of Chinese suppliers appeared to have an influence on the impact of cultural priming. Some interviewees reported that, due to foreign language barriers, they are unable to communicate directly with buyers from other countries. This negatively affects the likelihood that they will be culturally primed by alternative cultures, and restricts opportunities for interaction with, and exposure to foreign cultures.

Language itself, can work as a source of cultural priming (Bond & Yang, 1982). Chinese traders for instance, who are fluent in English may prioritise individualistic values more, compared to those who lack fluency (Ralston, Cunniff & Gustafson, 1995). Moreover, language competency may also affect individuals' ability to access various other cultural priming factors including business practices, thinking and decision-making styles, and role expectations (Benet-Martínez, Lee & Leu, 2006; Bardi & Goodwin, 2011).

Some informants, due to foreign language barriers, lack opportunities to be exposed to the cues and stimuli of other cultures as they rarely communicate directly with foreign buyers or go on business visits to foreign countries. That is, they are mainly primed with a Chinese cultural mindset and therefore tend to maintain their reliance on *guanxi*, *mainzi*, and *renqing* because their original central schema is less likely to be challenged. In contrast, some informants who are fluent in foreign languages like English are more likely to be primed with the cues of other cultures through their daily international business transactions. Therefore, their original values are more likely to be contaminated through cultural priming from other cultures.

We mainly focus on business, and don't sense too much cultural difference, mainly because of my language barrier. So in general, we just talk about business. If the guests want to go somewhere, I just accompany them. But in terms of other communication or contacts, it's very rare. (P.03)

I have seldom dealt with foreign buyers directly, mainly because of the language barrier, so most of my business has been completed through agents... For people like us, at our age, it's very difficult to learn new things like English or E-commerce. There is a deficiency... Sometimes the agents don't translate some terms and conditions of payment.

If I was competent in the foreign language, then such problems would not exist. (F3.1)

***Proposition 8c: The effect of automatic priming on intra-individual values change is moderated by the foreign language competency of local suppliers.***

### **7.2.1.3 Moderation Factor (Types of Cultural Exposure)**

The effect of cultural priming on individuals' values change is also dependent on or moderated by the type of cultural exposure to the foreign buyers' culture. Since different Chinese suppliers have different target markets, they experience different types of cultural exposure and different priming situations. Some informants are being exposed to cultural stimuli that are very different from Chinese culture such as American culture, while others are primed by a cultural category similar to Chinese culture where for example, interpersonal relationship plays an important role such as in India or in Middle-eastern countries. Therefore, priming that leads to values change is dependent on the type of culture primed. As discussed in the outcomes of values change, this study found that informants primed by cultures which are very different to Chinese culture are more likely to change their values, while informants primed with similar cultures or with mixed cultural priming tend to change their values less.

For example, one of the informants reported on his perception of the differences between Chinese harmonious *guanxi*-oriented culture and Western business results-oriented culture which provided the informant with priming counter to Chinese culture.

Chinese culture places more emphasis on harmonious relationships, therefore, we generally would not go to the court even as a last resort, so sometimes when we face credit risk, we would usually just suffer the loss... Moreover, Chinese emphasise that even if we can't reach a business agreement, we will still remain friends. But for Western customers, they prefer a clear, direct business relationship. (P.45)

In contrast, another informant reported that her company only targets the lower-end cosmetics market and exports mainly to India and Pakistan. Similarly to Chinese culture, interpersonal relationships still play an important role in business transactions in these cultures. She attached importance to personal relationships with buyers from these countries, and frequently engaged in gift-giving and family visits with them. These activities are associated in her mind with Chinese values of *guanxi*, *renqing*, and *mianzi*, and thus prime these Chinese values as having a particularly important place in her values hierarchy.

We seldom offer trade credits directly to foreigners, except for some clients from Pakistan. We have had business with a few Pakistani buyers for many years. They have also engaged in business operations in our city for over 20 years, almost like the Chinese... We have even visited their families and homes before. We have already reached a situation

similar to dealing with other Chinese... The essential thing when doing business in India is to keep good relationships with clients, even with governments... (P.20)

Other informants are involved in export with many different foreign countries and are thereby exposed to various types of cultural categories (mixed cultural priming). They are often able to compare and contrast different cultural categories.

I think the fussiest clients are those from Japan or Germany. The most difficult thing is that they are always fastidious and always insist on what they want. Some clients from several other countries are warmer—we have maintained good relationships with them for over ten years. If we explained our situation to them, they more or less understood some of our situations. For example, people from Spain and Brazil, they are always relaxed, very forthright, and very bold, just like Northeast Chinese people. (P.36)

***Proposition 8d: The effect of automatic priming on intra-individual values change is moderated by the categories of culture to which individuals were exposed and primed.***

#### ***7.2.1.4 Moderation Factor (Active Motivational Orientations)***

Exposure to cultural priming makes associated cultural knowledge temporarily or chronically accessible. This leads to an automatic cognitive process in which people are able to adapt their values hierarchy. Nevertheless, cultural priming is not always a passive process. Whether the cultural knowledge is activated and can be used also depends on individuals' active motivations (Hong et al., 2004; Zou, Morris & Benet-Martí'nez, 2008). Consequently, the influence of cultural priming on behaviours and values change is not fixed, but contingent upon whether individuals are willing to follow practices typical of certain other cultures, and whether they are willing to be continuously exposed to and primed by those cultures.

Analysis of the author's interview data revealed that when informants prefer or identify with a certain cultural group, they actively prime themselves with elements of this particular cultural category. They may continuously surround themselves with certain cultural symbols and cues and begin using this alternative cultural category to interpret events, eventually resulting in changes to their values hierarchy. For example, the following informant reported that she tended to adopt business practices and thinking patterns using an American style as a result of her identification with American culture. This identification resulted in a shift in values towards American cultural values and practices.

We generally grant credits only to those clients from the US, because the entire country uses credit ratings. In that case if clients don't make payment, it would negatively affect their credit records... Our boss is also in the US, therefore, we are quite familiar with the US, and understand that in the US, a person's credit record is very important... Another reason is that we generally use an American style of thinking to deal with these problems... We have our advantages, we just follow the American thinking style; if we just used the Chinese style, then we would not differ from other Chinese companies. (P.39)

In contrast, in those cases where informants experience prejudice against, or disidentification with, a certain cultural group, they tend to refrain from exposure and accessibility to this cultural category. They avoid communicating and trading with buyers from this culture and shift away from the practices and norms of this cultural group.

We also have clients from Indonesia, Singapore, mainly overseas Chinese, but generally the trading volume is very small, and it's very difficult to make a deal with them... Generally, we are reluctant to deal with these buyers, we prefer to deal directly with foreign customers... Because overseas Chinese are more inclined to use a Chinese working style, for example, they demand a lower, and then much lower price. When they visit, we also need to entertain them, such as treating them well to food and drink. But when dealing with other foreign buyers, it normally doesn't involve so much tedious entertainment, or interpersonal relationships which actually make us very tired... (P.39)

These findings demonstrate that the influence of foreign cultural exposure on values change is not just an automatic cognitive priming process, but can also involve a self-motivated effortful process by individuals. Individuals may manage the cultural exposure and priming process by controlling the accessibility of cultural cues, and engage in an active effortful change in values. This finding is consistent with the research of Zou, Morris and Benet-Martí'nez (2008). However, their study employs a research method based on experimental priming with bicultural individuals from the perspective of cognition and attribution tendency, while this study examines intra-individual change from native cultural values for local nationals in a real international business context.

***Proposition 8e: The effect of automatic priming on intra-individual value change is moderated by the active motivational orientations of local suppliers such as identification or disidentification with certain cultures or cultural groups.***

### 7.2.2 Self-dissatisfaction and Credit Risk Awareness

Cultural priming is an automatic cognitive process leading to values change. In contrast, self-dissatisfaction and credit risk awareness which drives informants to engage in metacognition is an active, self-motivated, thoughtful process of values change.

The activation of a cultural category within individuals depends not only on the accessibility and applicability of cultural knowledge in certain situations, but also on the individual's motivation (Hong et al., 2004; Zou, Morris & Benet-Martínez, 2008).

In the complexities and crises involved in ITCR situations, troubling factors such as personal-experiences of credit risk cases which lead to financial loss can induce self-dissatisfaction, which provides a motivation for informants to engage in metacognition and adjust their values. Metacognition results from an inconsistency between the informants' expectation and the consequences of practicing their original values, leading them to form a negative view of themselves (Rokeach, 1973; Bardi & Goodwin, 2011). This dissatisfaction with oneself results in introspection about the risk situation, self-persuasion and active thinking about values change, that is, a process of metacognition (Aronson, 1999; Bardi & Goodwin, 2011).

In fact, now I think these [guanxi, renqing, mianzi] are really harmful, especially interpersonal relationships. Normally risk is always associated with people where we have had a good relationship... Sometimes default on payment is only associated with good friends. This is because if they were not your good friends, you wouldn't trust them. We have several overdue debts, still in the process of collecting payment, still chasing. These are normally with good friends, because sometimes you thought they were trustworthy, so you were willing to take risks, and the result was bad debt... So I think guanxi must not be a consideration in our transactions. (P.05)

Compared with self-dissatisfaction as a result of troubling factors only, there are various factors leading to an increase in awareness of credit risk situations, including interactional, persuasive and environmental factors. These factors also motivate informants towards a process of conscious metacognition and effortful values change.

Now, we tend to do business when it is really safe, because there have been great changes in the market, and great changes with foreign clients. From my personal experience, our company suffered a lot of default payments when we initially exported products. I have



also heard that some companies have been cheated many times. Export bad debts even caused almost all companies in one town to go bankrupt. (P.35)

With more information sharing, we are more cautious than before. We have more understanding of the risks, and we have strengthened our risk awareness, and our understanding about related regulations and laws. (P.06)

***Proposition 9a: Self-dissatisfaction arising from troubling factors leads to active metacognition, which in turn contributes to an effortful and conscious values change process.***

***Proposition 9b: Heightened credit risk awareness arising from various external factors leads to active metacognition, which in turn contributes to an effortful and conscious values change process.***

### **7.2.3 The Conscious and Effortful Metacognition Process Leading To Values Change**

As reviewed in Chapter 2, metacognition is “thinking about thinking” (Dunlosky et al., 2007: 138; Flavell, 1999) where people engage in “cognitions about their cognitions” (Wegener & Carlston, 2005: 495). Since metacognition promotes active thinking, self-questioning, reflection and introspection activities in individuals, it may lead to an active, effortful, thoughtful process of values change, especially when individuals are facing complicated and unpredictable situations (Klafehn, Li & Chiu, 2013; Flavell et al., 1970; Tobias & Everson, 2002), such as the complexity and crisis in cross-cultural and ITCR situations in this study.

With increased credit risk awareness and self-dissatisfaction, many informants interviewed for this study became involved in active thinking about ITCR situations, as well as thoughtful reflection and analysis of the reasons for ITCR mistakes. They mentioned culture-related reasons for ITCR errors, such as reliance on guanxi-based trust, mianzi, renqing, forbearance, particularism, low uncertainty avoidance, disregarding contracts, and delay of risk control until after problems have occurred, as discussed in Chapter 6. In addition, informants also reported non-cultural reasons, such as the buyers’ intention or competency to pay involving intentional fraud, company financial problems or bankruptcy, macro-economic reasons such as the global financial crisis, and changes in market demand; institutional reasons including deficiency in government regulation, domestic credit systems, recourse and claiming mechanism; and the suppliers’ internal reasons including low product competitiveness, and quality problems with products.

Many bad debts are due to the Chinese habit of blind compromise. Many Chinese suppliers just agree with whatever requirements are requested by foreign buyers: term one is okay; term two is okay. Finally even when the buyer didn't want to pay any money, we still agreed, and tolerated it. (P.29)

I think the reasons that have led to a high level of credit risk in Chinese foreign trade is that sellers didn't have a strong sense of contracts. There were always some important terms in the contracts that were neglected. In addition, it's now a buyer's market, so the sellers have fewer options for customers. (P.07)

Metacognition assists informants to learn and adapt to the new trading environment, reflect and introspect about the ITCRM situations, and engage in active problem solving as a result of self-dissatisfaction and credit risk awareness. Through metacognition, individuals are more able to adjust their existing knowledge, skills, and even adapt their attitudes and values to meet changing demands in the environment (Klafehn, Li & Chiu, 2013; Flavell et al., 1970; Tobias & Everson, 2002).

As discovered in this study, many informants actively engage in thinking about strategies to improve ITCRM and learn from previous ITCR cases. As mentioned by informants and reported in Table 6-3, the most important ITCRM improvement strategies regarding cultural values or cultural practices are: downplaying guanxi-related values such as mianzi and renqing in trust and credit granting decisions; actively collecting payment from foreign buyers rather than forbearance to preserve harmony; placing more stress on preciseness and cautiousness in credit risk assessment and control; and highlighting the importance of internal control and cautiousness throughout all steps of ITCRM. However, only some of the informants are able to adapt to complex ITCR situations and change their values and ITCRM practices, for example by buying export credit insurance, or establishing risk management department and positions, whereas others are less able to engage in actively changing the process.

In short, the awareness of risk control is really important for a company. For example, within an industry, some companies don't have any problems over many years, while others always have problems, and accrue large numbers of cases of bad debt in a short time period. This is definitely related to their own risk control... Therefore, it is essential to engage in control not only after risk occurrence but, more importantly, during and in advance of risk occurrence. (S.1)

We should be cautious about buyers where we have a long-term relationship. It's better to rely less on introduction through guanxi, and rely less on buyers introduced by someone with guanxi, because there are too many uncontrollable factors. (P.43)

In cross-cultural settings such as the ITCR situations discussed in this study where informants constantly interact with buyers from different cultures and countries, cultural metacognition can promote awareness of one's own and others cultures, and improve the cognitive flexibility and cultural adaptation abilities of individuals, thus driving intra-individual change away pre-existing cultural values and toward alternative values.

In terms of self-cultural awareness, that is understanding one's own cultural values and practices, informants frequently mentioned the following dimensions of cultural values and practices: guanxi, harmony, forbearance, the norm of reciprocity, flexibility, very low uncertainty avoidance and speculative/gambling cultural trait, genfeng or blind conformity to group behaviours, high context communication style, and the practice of neglecting contracts.

Overall, there are no strict commercial credit records as such in our own country. Doing business here still greatly involves mianzi (face) and guanxi (interpersonal relationships). (P.45)

Generally speaking, if business was introduced by friends, we normally trust it. Chinese generally believe our friends, as long as we know each other... After all, we think that if our friends introduced the business, they would not harm or cheat us... Doing business through acquaintances is always like this. There are always risks involved in business between Chinese companies and overseas Chinese... This is because there are often rebates, commissions, kickbacks, and benefits involved in business among Chinese. Moreover, it is inherently easy to obtain trust among people with familiar relationships. (P.10)

In terms of their awareness of others' culture, informants described their understanding of the varying cultures of foreign buyers, and the perceived similarities and differences between Chinese culture and the cultures of importing countries. The perceived cultural differences include the following dimensions: results- vs. relationship-oriented, forbearance vs. persistence, high- vs. low-context communication, flexibility vs. stringency, universalism vs. particularism. Some informants were also able to compare and contrast among a range of cultures of foreign buyers.

From the perspective of countries, buyers from Japan focus more on credibility, they are more rigid, and stick to strict rules... The letters of credit issued by Japanese are the

simplest. Normally they require less than five types of documents. They focus more on factory inspection, and quality control beforehand...(P.29)

People from Italy are just like the Chinese, they are more likely to use debt chains. The Italian culture places less stress on credit, for example. They do not pay attention to punctuality, and are often late by one hour or half an hour without a word of apology... In contrast, people from Spain are different, North Americans are also different, more punctual... (F.2)

With more awareness about their own and others' cultural attributes through cultural metacognition, as revealed in this study, some informants actively engage in challenging their previous values structure, and undertake values change. The most important values changes reported by informants included changing from relationship- to results-oriented; from low to high uncertainty avoidance; from flexibility to greater stringency; shifting away from *mianzi*, *renqing* and forbearance, and attaching more importance to internal control, preciseness, and cautiousness in ITCRM decisions. Furthermore, frequent exposure to foreign cultural cues and stimuli that begins as an automatic priming process may be developed through contemplation of other values, which may contribute to an effortful and conscious metacognitive process of values change (Bardi & Goodwin, 2011).

When one of my American clients applied for bankruptcy, I also went to the United States. After the client had agreed to pay the money, I felt embarrassed to remind him again to make this payment; there was something about *mianzi* (face) involved. Eventually all I got back was USD110,000. From this incident, I learned the lesson that if you want to do business, you must not focus on *mianzi*, but emphasise profit and interests. (P.02)

Previously, risk control was relatively loose and relaxed, but now overall risk control is becoming more and more stringent, and we have more rigorous checks on transactions than before, more rigorous year after year. This is mainly due to the financial crisis. The entire market has become very weak, there have been a lot of dramatic changes over the past few years so there have also been some changes in our minds. (P.04)

It should be noted that the model of values change proposed in this study uses the broad concept of 'metacognition', rather than the more narrow concepts of 'cultural metacognition'. This is because values change in ITCR situations is driven by both cultural factors in conjunction with complex business and environmental factors. Consequently, informants have not only adapted to cross-cultural interactions with foreign buyers, but also have reflected upon and applied

self-analysis to ITCR situations. In the case of those informants experiencing self-dissatisfaction or credit risk awareness, ‘metacognition’ plays an important role in facilitating values change; while in cases of an effortful route of values change as the result of cultural exposure, ‘cultural metacognition’ (a culturally specific domain of metacognition) is more relevant in driving values change.

***Proposition 10: Metacognition arising from foreign cultural exposures, self-dissatisfaction and credit risk awareness leads to a conscious and effortful process of intra-individual values change.***

### **7.3 OUTCOMES: SIX CULTURAL STANCES AS A RESULT OF VALUES HIERARCHY CHANGE**

The data analysis employed by the author involved an ongoing process of sorting and categorising interview comments that were indicative of informants holding not a homogenous attitude toward traditional Chinese values but a bewilderingly heterogeneous range of attitudes. Interview comments related to different cultural stances were identified from the results of an NVivo matrix coding query during data analysis: see Appendices H, I and J. In other words, the analytic process revealed that there is more order in the attitudes of the trader/suppliers than the author first supposed.

The next step was to discover the origin of those six stances. So the author returned to the primary data, looking for interview comments relevant to each stance; comments that connected antecedent conditions and intermediary factors to the development of the different stances. The psychological processes of automatic priming and metacognition turned out to be central but far from straightforward.

Automatic priming and metacognition play different roles in changes in an individual’s hierarchy of values. It was found that both processes might occur individually or concurrently, leading to outcomes where informants take different stances involving maintaining, reflecting, eroding, opposing, minimising and switching, regarding their native cultural attributes. That is, some informants experienced values change through automatic priming, some through effortful metacognition, while others experienced both processes, and still others experienced neither priming nor metacognition and therefore still maintain their traditional values. Table 7-1

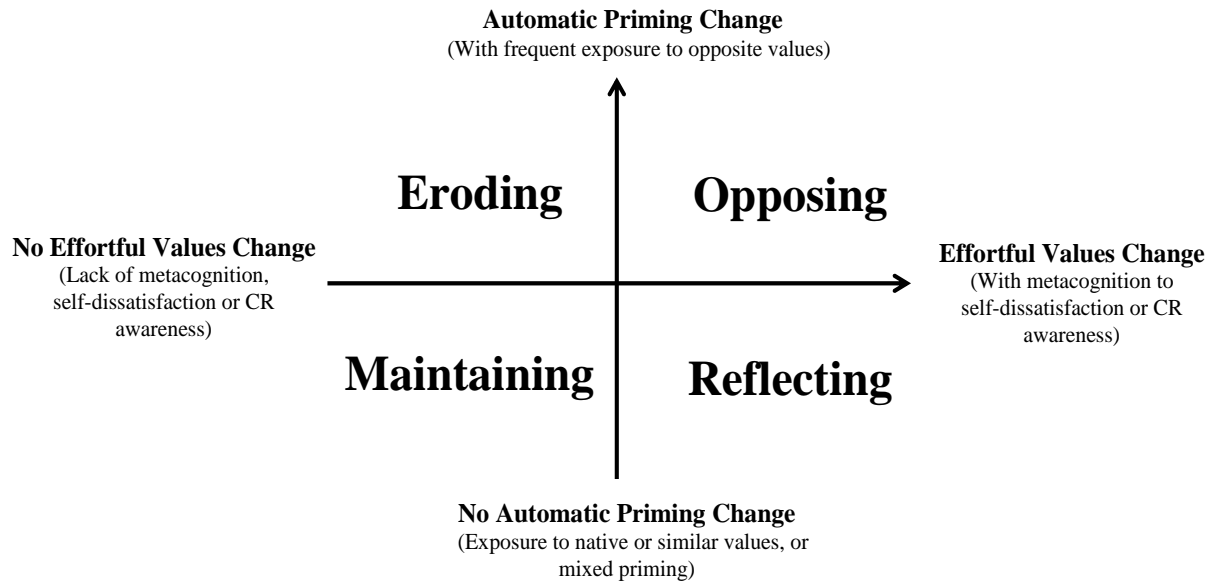
summarises the six cultural stances taken by informants as a result of different situations regarding the values change process.

To better understand the variations among the different cultural stances, Figure 7-2 provides a visual explanation, particularly regarding the cultural stances of maintaining, reflecting, eroding and opposing. This figure highlights that the development of each cultural stance is contingent upon whether the informant is able to initiate an effortful values change process (as a result of metacognition initiated by self-dissatisfaction or credit risk awareness) or is involved in an automatic priming change process (as a result of frequent exposure to cultural stimuli that differ from their native values). Therefore:

***Proposition 11: Changes in their hierarchy of values leads individuals to develop various cultural stances contingent upon whether an automatic priming process or an effortful metacognition process is initiated individually or concurrently.***

**Table 7-1 Six Stances towards Native Cultural Attributes As a Result of Dynamic Values Hierarchy**

<b>Cultural Stances</b>	<b>Definition</b>	<b>Causes of Cultural Stances</b>
<b>Maintaining</b>	<ul style="list-style-type: none"> <li>• Informants still maintain conformity to native cultural values (e.g. guanxi, renqing, mianzi, forbearance in Chinese culture)</li> <li>• No change in initial values hierarchy</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of exposure to cultural cues distinct from native culture; mainly primed by native cultural values or other similar cultural categories</li> <li>• Low self-awareness or sensitivity to cultural differences due to language barriers, low cultural metacognition</li> <li>• Lack of self-dissatisfaction or high CR awareness due to external attribution</li> <li>• Neither automatic priming nor an effortful metacognition process influences values change</li> </ul>
<b>Reflecting</b>	<ul style="list-style-type: none"> <li>• Informants constantly reflect and challenge (despite sometimes needing to conform to) native cultural values due to associated problems</li> <li>• Ready to change original values hierarchy</li> <li>• Weaker strength of attachment to native cultural values</li> </ul>	<ul style="list-style-type: none"> <li>• Experience self-dissatisfaction or high CR awareness either through personal experience or CR information sharing; Engage in metacognition regarding their own experience rather than that of others</li> <li>• Mainly primed by native cultural values or similar cultural categories; or mixed priming with a variety of foreign cultures, in which no particular culture dominates the priming</li> <li>• Motivated to initiate an effortful values change, but without an automatic priming process to initiate values change</li> </ul>
<b>Eroding</b>	<ul style="list-style-type: none"> <li>• Informants question and shift away from native cultural values</li> <li>• Original values hierarchy eroded</li> </ul>	<ul style="list-style-type: none"> <li>• Frequently primed by cultural cues counter to native values</li> <li>• Lack of or little personal experience of credit risk, lack of self-dissatisfaction</li> <li>• Values change mainly driven by an automatic priming process and foreign cultural exposure</li> <li>• Metacognition driven by high awareness of others' culture rather than self-dissatisfaction</li> </ul>
<b>Opposing</b>	<ul style="list-style-type: none"> <li>• Informants thoroughly change and behave contrary to their original values</li> <li>• Endorse values exactly opposite to those of native culture</li> <li>• Identification with foreign culture, disidentification with native cultural values</li> </ul>	<ul style="list-style-type: none"> <li>• Frequently and/or repeatedly primed by cultural stimuli counter to native cultural values</li> <li>• Experience self-dissatisfaction or high CR awareness either through personal experience or CR information sharing; Engage in metacognition towards themselves and others</li> <li>• Values change driven by self-dissatisfaction and concomitant foreign cultural exposure, with both effortful metacognition and automatic priming changing process</li> </ul>
<b>Minimising</b>	<ul style="list-style-type: none"> <li>• Informants with weaker attachment or opposition to native traditional values, intentionally minimise the impact of native cultural values on credit decisions</li> <li>• No change or little change on values hierarchy because initially native values were not emphasised</li> </ul>	<ul style="list-style-type: none"> <li>• Rarely primed by other cultural categories; lack of alternative cultural categories; very high CR awareness</li> <li>• Initially other values (such as high uncertainty avoidance) considered more important than native cultural values</li> </ul>
<b>Switching</b>	<ul style="list-style-type: none"> <li>• Informants integrate new cultural categories into their schema while still maintaining original native cultural values</li> <li>• Switch flexibly among different cultural categories and act appropriately according to the situation</li> </ul>	<ul style="list-style-type: none"> <li>• Mixed priming when immersed in a variety of multicultural experiences</li> <li>• High awareness of their own and others' culture; high cultural metacognition</li> <li>• Some CR awareness, but without self-dissatisfaction</li> <li>• Focus on flexibility and behave like biculturals or multiculturals</li> </ul>



**Figure 7-2 Cultural Stances (Maintaining, Reflecting, Eroding and Opposing)—A Visual Display**

### 7.3.1 Maintaining

Informants with a maintaining stance attach high importance to the Chinese native cultural values, especially guanxi and its related values such as renqing, mianzi, ganqing, forbearance and particularism. There is basically no change in the values of informants in this category, and their rank order within their values hierarchy remains stable.

They tend to practice the following values in ITCRM decisions: considering guanxi, mianzi, renqing in credit granting decisions; differentiating in-group and out-group members of the guanxi network; and refraining from prompt payment collection due to forbearance. They also practice these values in building and developing business relationships with foreign buyers so they frequently engage in social networking activities such as invitation to dinners, gift-giving, or family social activities.

I still prefer to do business with someone I am familiar with. For example, suppose my Japanese client has experienced a bad situation such as the 2008 financial crisis and been unable to make the payment, we still wouldn't urge him to pay or send him a reminder chasing payment. We would discuss the solutions with him, and continue to ship the goods



to him. We absolutely would not break the relationship with him only because of this.  
(P.10)

***7.3.1.1 Lack of exposure to cultural cues distinct from Chinese culture, resulting in no automatic priming process or cultural metacognition process of values change***

Some Chinese suppliers in this category lack experience of alternative cultural categories, as a result of little exposure to foreign cultures. They have little multicultural knowledge within a closed loop of foreign contacts and experiences, either because of foreign language incompetency, or long-term residence in small villages or towns isolated from international exchange. Therefore, they have little availability or accessibility to stimuli related to a given foreign culture, which is less likely to become activated as a guide to subsequent behaviours (Hong & Mallorie, 2004).

I rarely had direct communication with foreign clients; business is done mainly through Chinese foreign trade agents. Because of the language barriers, that's why I always ask my son to learn English well. For example, there was a foreign buyer, he wanted the goods urgently. For suppliers like me, of course, I prefer cash in advance, but the agent said it is not allowed, they must use an open account for two to three months. This is all due to my inability to communicate directly with foreign clients. (F 3.2)

These informants are mainly exposed to the stimuli and cues of Chinese culture, leading to a chronic accessibility to the Chinese cultural category (Hong & Mallorie, 2004). They are not only involved in everyday communication in Chinese in their local society, but also rely heavily for export of their products on foreign buyers from the same cultural ethnicity (overseas Chinese) who share the same Chinese cultural meaning systems.

Consequently, there is neither an automatic priming process, nor a cultural metacognition process leading to values change because of the unavailability of foreign cultures and chronic accessibility to native culture. Therefore, the informants in this category maintain their initial cultural values and tend to behave more in line with Chinese native culture.

Overseas Chinese have advantages in doing business with us. There are so many overseas Chinese clients; for example, some of them are originally from Wenzhou (a city of Zhejiang province), many, many... Mainly because of easier communication, and

therefore easier trust with them... I have had long-term relationships with them, so even if someone is short of funds and unable to pay promptly, I am still willing to provide payment guarantees for them, it's quite normal... (F3.1)

Furthermore, identification of native Chinese culture and familiarity with members from the same or similar culture, leads these informants not only to thinking and behaving in conformity with native Chinese values and norms (i.e. guanxi-related values), but they are also more likely to offer trade credit privileges and priorities to overseas Chinese (or foreign buyers with relationship-oriented cultural values similar to Chinese guanxi).

Granting credit based on open account happens very seldom in our firm, the only case would be in business with Chinese living abroad... Every year we go abroad for international exhibitions, and then we would meet these overseas Chinese buyers. No matter where they are from, they are Chinese intrinsically, they know our situation and business style, so everything is very clear, and easy to handle... In addition, there are a few clients from Pakistan and India who also receive our trade credit, we are quite familiar with each other, they are just like Chinese, almost equal to Chinese...(P.20)

Other informants in this category, despite regular business interactions with foreign buyers from other cultural ethnicities, are frequently exposed to other cultural categories similar to Chinese culture, that is, relationship-oriented cultures from Middle-Eastern countries or from East Asian countries. Therefore, the automatic priming process does not lead to a change in guanxi-related values. With little perceived cultural differences between these foreign buyers and themselves and low sensitivity to the cultures of others, these informants are also unable to actively engage in cultural metacognition and values change.

The biggest, most important clients of mine are those from Japan... They also focus on interpersonal relationships, they are more people-oriented, and prefer to do business with people who are familiar... Their culture is just like Chinese culture; it actually originates from China... Even if these clients were unable to make the payment, we absolutely wouldn't stop shipping the goods to them... Most of these clients are creditworthy, even if someone was unable to make the payment, it must be an objective unavoidable situation.

This is also because during the business transactions, interpersonal relations are still very important. (P.10)

#### ***7.3.1.2 Lack of self-dissatisfaction or high CR awareness, resulting in no metacognition and values change***

Some informants in this category have personally experienced ITCR cases, which however failed to trigger a feeling of self-dissatisfaction. Others have only a little or no credit risk awareness. They tend to make external attribution about the reasons for ITCR cases like the dishonest behaviour of buyers, low market demand, or a financial crisis, rather than internal self-initiated factors such as lack of internal control on ITCRM decisions, or risk-taking behaviour. Therefore, they are quite comfortable to stay within their initial cultural category, seldom reflect on their own values and practices, and are not motivated to engage in metacognition and an effortful route of values change.

In terms of bad debts or export credit risk, they are probably mainly due to the unfavourable external environment... In general, my clients are less likely to default on payment, don't breach contracts; therefore, we wouldn't take this stuff into consideration. (P.13)

Sometimes we settle the payment once a month, sometimes once a quarter, it is not fixed... Well, in terms of the arrears, you know, for Chinese, if we send them a few reminders, as long as there are no product quality problems, generally no problem at all... Moreover, Chinese have this custom of giving credit and an open account. For example, if I deliver the goods on the first day then the buyer pays off the money the next day; it would be just great. Maybe this is just Chinese business style. (P.20)

#### **7.3.2 Reflecting**

Informants in this category constantly reflect on themselves and engage in metacognition, and are therefore able to initiate an effortful change process. They have high ITCR awareness either

through personal experience of credit risk, or word-of-mouth ITCR information sharing and communication. Personal experience of ITCR cases is particularly likely to lead informants into suffering self-dissatisfaction, which motivates them to challenge their original values structure, reflect on the problems this structure has caused, and engage in an effortful change in their values.

We have read many cases from the newspapers where Chinese businesses had operational difficulties, even had to close down, due to problems with foreign buyers... Many foreign clients explained their troubles and difficulties, and hoped that we could wait for another half year. Then we would try our best to pursue the debts. Sometimes these were related to local economic conditions. We were not optimistic about the business situation, have felt very anxious and pressured. There were so many bad debts. Therefore, it's all about how we, and governments, deal with the problems... Sometimes when overseas Chinese come, we have smooth communications, and we are more likely to trust them, but actually these clients are more risky than others... (P.21)

Informants with a reflecting cultural stance are mainly exposed to native cultural values and norms which remain highly accessible in the long term. They also lack chronic accessibility to stimuli or cues from foreign cultures. This is because they have only limited contacts with foreign buyers due to language barriers or intercultural communication difficulties. As a result, they have low sensitivity and understanding of foreign cultures, and low perceived awareness about the differences between their local culture and foreign cultures. Sometimes, they have limited intercultural experiences with foreign buyers from various countries due for example to interpretation by local agents. This kind of mixed priming and temporary cultural exposure does not drive informants to actively think about an alternative cultural category. Consequently, there is little opportunity to achieve values change through an automatic priming process or a cultural metacognition process.

I did not feel any cultural differences. Maybe the biggest one I experienced is the cultural difference in dietary habits. From my standpoint, most of the foreign buyers in China do as the Chinese do, and are relatively 'keqi' (modest and courteous), and normally follow what we mean and agree with our ideas. (P.16)

I had very rare direct communication with foreign buyers. Due to language barriers, most of the business is completed through agents. Under a few circumstances, when I had direct contacts with foreign buyers, we seldom used formal methods for payment settlement. It was mainly based on open accounts. (P.21)

It should be noted that because these informants have little exposure and sensitivity to foreign cultures, or mixed priming from a variety of cultures, no dominant alternative cultural category other than their native cultural category can be used by the informants to analyse and interpret ITCR problems. Therefore, their metacognition and reflection are only about themselves, their own ITCR experience and its reasons, or the local business styles, rather than being driven by awareness of others such as comparing and contrasting between Chinese culture and foreign cultures.

There were a lot of disputes which still haven't been resolved, and a lot of overdue accounts, some of them even lasted two or three years. Most of them didn't have any written evidence, and cannot be clearly explained. It's mainly due to the relationship with our buyers, especially with long-time customers. We just complete the following orders first, rather than remind our buyers very often and asking for payment. This is mainly due to Chinese renqing and face. (P.11)

As a consequence of constantly challenging their own values and reflecting on their own problems, that is, metacognition driven by self-dissatisfaction and high credit risk awareness, these informants are ready to change their original values structure. They tend to have weaker strength of attachment to native relationship-oriented values such as guanxi, renqing, mianzi and forbearance. For example, some informants intentionally avoid the contacts and practices of guanxi-driven relationships. However, this change of values is not thorough, and sometimes reflecting informants still practice guanxi-related values when interacting with foreign buyers and making ITCRM decisions.

Why have suppliers been so easily cheated in international trade? Mainly due to the suppliers' own problems...they just pay attention to the company's sales volume on the surface, and focus on the benefits and their relationships with buyers... Now we have a lot

of experience and have learned some lessons, some of the leaders have changed their minds, and are not willing to take any risks in the transactions... Now we would rather refuse the business whenever there are risks involved; we would not do it. (P.35)

### **7.3.3 Eroding**

Informants with an eroding cultural stance also have weaker strength of attachment to native cultural values. They constantly question and challenge guanxi-related values like mianzi, renqing, and forbearance, resulting in an erosion of their original values hierarchy. However, they differ from those with a reflecting stance, as this erosion or change in values is mainly driven by foreign cultural exposure rather than self-dissatisfaction and credit risk awareness.

We mainly send reminders to our clients through email, to collect the payment immediately. This is nothing embarrassing or involving mianzi (face), especially when dealing with European or North American buyers, who are normally have good credit and think business is just business. So there is nothing embarrassing in pursuing payment or sending reminders, all of these are right and proper. (P.28)

We can't say regular buyers with long-term relationship are safest; we can't indulge in blind trust. No matter whether they are long-term or new customers, we must take into account the various types of risks, to avoid falling into traps. (P.39)

With good foreign language proficiency and intercultural communication skills, most of these informants have frequent interactions with foreign buyers in daily international business transactions through replying to emails, making quotations, negotiating contracts, delivering products, and on business trips to foreign exhibitions. This not only makes alternative cultural categories available for these informants, but they are also chronically accessible for them. More importantly, these alternative cultural categories are very different from or even counter to Chinese culture, and are frequently characterised by individualistic and results-oriented values, which greatly challenge the informants' original schema. These differences make the initial values hierarchy unstable and likely to be eroded.

Here in our company, we don't stress interpersonal relationship-building, we just focus on the products and results, and consider the business as it stands... We don't need to worry about mianzi, and consider the mianzi (face) and temper of other people... Our boss also brought us American habits, which makes us different from other Chinese local companies... He passed on Western management principles, so we normally use a Western working style. (P.39)

Some informants in this category have a strong identification with cultures and values counter to their native culture such as results-oriented rather than relationship-oriented, and tend to experience disidentification with groups who have the same cultural ethnicity such as overseas Chinese. This motivation of identification with out-groups and disidentification with in-groups tends to erode their native values even more deeply.

People from Europe or the United States normally have greater creditability and higher standards, so we prefer to deal directly with these foreign customers, and have direct communication. They focus more on the product quality, the trade volume and the extent of cooperation with you, rather than the price alone. We tend to seek such customers who don't just pay attention to low prices... When dealing with overseas Chinese, we would be more careful and cautious, because I have heard that they are likely to bring about some serious problems. (P.28)

Frequent and chronic exposure to the stimuli of foreign cultures leads to an automatic cognitive process of values change. Furthermore, informants in this category tend to have very high awareness about others' culture, and reflection about perceived cultural differences. Therefore they are also actively involved in a cultural metacognition process of values change.

The difference between Chinese and Western people is that Chinese tend to do something in a pro forma way, while Westerners are more likely to use evidence. Their principles are based on the need to prove it oneself; they are more rigorous. (P.33)

We also encourage our employees to know about the cultural differences of different countries, their cultural customs and norms. We try to find out about the cultural background of our clients as much as possible, and know what they like or dislike. For

example, Americans like sports, so then we would first talk about this kind of thing during communication. (P.39)

It is also noteworthy that for informants with an eroding stance, effortful change through metacognition is mainly driven by awareness of others' culture, rather than self-dissatisfaction. This is because despite some awareness of credit risk, they have rarely had any personal experience of cases of credit risk, therefore they do not experience any self-dissatisfaction that may lead to self-examination and introspection.

Until now, our company hasn't had any bad debt, mainly because we focus on follow-up with customers by our sales staff who should know the customers' situations well at any time. We also have a relatively stable customer base. The sales staffs know our customers very well. We don't need to double-check their information with the financial department. As long as we say hello to them, we know their circumstances. (P.17)

As a result of erosion of their original values and exposure to foreign cultural stimuli, these informants tend to shift away from native guanxi-related cultural values, and instead they use behaviours informed by foreign cultural norms. Although they lack strong credit risk awareness and uncertainty avoidance, the availability and chronic accessibility of alternative cultural categories drives these informants to change their original values-informed behaviours in ITCRM decisions. These informants tend to downplay the importance of guanxi-related values while upgrading the importance of uncertainty avoidance in ITCRM decisions.

Basically we haven't had much credit risk for the last 5~6 years, maybe because we had better internal control... Our company policy is that no matter the value of the amount of an order, we should try our best to control risk. The bigger the order, the more cautious we should be otherwise it would affect the normal operation of the company. The more business the company does, the more risks involved, and the more we should focus on careful handling. (P.39)

When dealing with overseas Chinese mainly because of easier communication, we are more careful. We are aware that Chinese place more stress on yiqi (personal loyalty) and ganqing (affective bonds), which sometimes reduce our cautiousness and alertness.



Chinese are more likely to compromise on the terms and conditions of transactions, especially when dealing with familiar clients where they have long-term interpersonal relationships. (P.28)

#### **7.3.4 Opposing**

Informants with an opposing cultural stance have thoroughly changed from their original values. They not only explicitly oppose their native cultural values including interpersonal relationship-oriented values, but also endorse values exactly counter to those from their native culture such as results-oriented values. They blatantly challenge and question guanxi-related Chinese values, and act contrary to these values in international business transactions and ITCRM decisions.

In fact, now I think it's really harmful, especially, the guanxi (interpersonal relationship). Normally the risk is always associated with people with good relationship... Sometimes, defaults on payment are only associated with good friends. This is because if they are not your good friends, you won't trust them. (P.05)

The opposing stance towards native values is driven by self-dissatisfaction and concomitant foreign cultural exposure, leading to both an effortful change and the automatic priming process.

Through frequent interactions with foreign buyers in international business transactions, these informants have chronic accessibility to alternative cultural categories characterised by individualistic and results-oriented values. They are repeatedly exposed to and primed by cultural stimuli opposite to Chinese native values, resulting in foreign cultural values becoming automatically dominant and operative in directing these informants' thinking and behaviour.

There are some cultural differences, for example, Americans think business is just business, they would not consider any affective components, they just put interests first... Later, I learned the lesson from this incident that in foreign trade, you cannot have any affection or compassion, not at all. If sometimes it is necessary to quarrel, then just quarrel, make direct confrontation... Whenever doing business, you needn't be concerned about

the sense of shame, or mianzi (face). As long as you rank interests first, you are right.  
(P.02)

Informants in this category have developed a strong identification with results-oriented western values, which drive them to think and behave in conformity with these values and norms. Some prefer to trade only with buyers from Western countries such as the USA, Canada, and developed countries in Europe, and this exposes them constantly to culture priming which counters Chinese values.

In general, we only do business with buyers from Europe or the United States. For other countries, there is normally more risk involved in payment collection, and the business practices and trading rules of their banks and companies are not standardised nor strictly regulated. (P.01)

Moreover, these informants not only have very high credit awareness as a result of credit risk information sharing, and government education, but they also have personal experiences of credit risk which led to negative perceptions for the informants themselves and a feeling of self-dissatisfaction. These personal credit risk experiences allow informants to perceive their own values as conflicting and incompatible in ITCRM situations. This mismatch leads informants to question, challenge and to introspection about their original values. It triggers negative responses to their native cultural norms and practices, and prompts informants to engage in metacognition and effortful change process.

We previously had a client from Hungary, they were very good friends, and we had done business with them for more than three years, and had a very good relationship. But in 2010, his company collapsed. When there were several containers of goods still in transit, he refused to take delivery of the goods... So now, friends just play a role in introduction or as a middleman, they don't play a role in trust... Someone who deceives you is often your good friend with good guanxi (relationship). If he/she is not your good friend, you won't be cheated or deceived. (P.05)

In contrast to those with a reflecting or eroding stance, metacognition in those with an opposing stance not only features high introspection regarding issues like the ITCR experience and incompatible native cultural values, but also involves high awareness of foreign cultures.

In fact, people in Europe or North America have very good friends, with close friendships, but they are more likely to strictly separate business and feelings (sentiments). In interpersonal interactions, they are very different from Chinese. Chinese are always very keqi (polite and courteous). A standard practice when guests come is that a large group of people is invited to have dinner together, drinking and eating. Actually it is really unpleasant and annoying. (P.29)

Many of these informants have also developed strong disidentification with their native values and practices, and hold negative attitudes towards in-group members like foreign buyers with the same cultural ethnicity such as overseas Chinese. With their negative motivation, these informants deliberately distance themselves from foreign buyers with the same cultural ethnicity, and refrain from trading with them. This provides informants with less opportunity to be primed with their native values. This disidentification motivates informants not only to shift away from their values but also leads them to act in ways that run counter to Chinese cultural values.

We don't have much business with overseas Chinese; there may be some risks. Our company has also experienced bad debts with overseas Chinese before, some associated with guanxi... So now our cautiousness and alertness has increased. (P.01)

As a result of values hierarchy change, these informants attach high importance to values like uncertainty avoidance, cautiousness and safety, and meanwhile act exactly contrary to Chinese native values (guanxi, mainzi, renqing, forbearance) in ITCRM decisions.

When individualistic results-oriented values become dominant, informants with an opposing stance tend to limit their affective closeness with foreign buyers even those with whom they have a long transaction history. They separate affective bonds and notions of mianzi and renqing from ITCRM decisions, and rely more on cognition-based trust by analysing the buyer's competency to pay, financial records and other evidence. With their prejudice against, and disidentification from foreign buyers with the same cultural ethnicity or with similar cultural values, these informants

not only avoid trading with them, but also withhold both affective and cognitive trust from these buyers.

Of course, our company has been deceived, and involved in bad debt several times, but we have learned from our mistakes... Now we have decided that payment should be received within a short period of time, no matter how lengthy the relationship... When managing a company, we shouldn't always compromise with our clients or be too easy to negotiate with, or tolerate all the requirements of clients when we have had a long-term relationship... Sometimes we need to be firm when necessary. We shouldn't be indiscriminately kind, and always concerned about mianzi (face). Actually these are effective strategies for credit risk avoidance. (P.18)

### **7.3.5 Switching**

Informants in this category integrate new cultural categories into their schema while still maintaining the original values of their native culture. They are able to switch flexibly among different cultural categories, and act appropriately according to the situation. They differ from those with a maintaining, reflecting, eroding or opposing stance in which there is only one dominant interpretative schema. Informants with a switching stance may embrace two or more internalised cultures and act according to the situation confronting them. These informants demonstrate characteristics typical of biculturals and multiculturals who can switch among cultural frames, either spontaneously or effortlessly, according to situational demands (Hong et al., 2000).

As reported by some of these informants, they usually have over ten years' experience in international business transactions. In this time they have been immersed in a variety of multicultural experiences through daily interactions with foreign buyers from different countries. Therefore, they are extensively exposed to more than one alternative cultural category, and primed by stimuli and cues of different cultures (mixed priming). They have high awareness of their own culture and several other foreign cultures, and thoughtfully engage in cultural metacognition.

British clients seem to behave like gentlemen; they normally treat us well, communication is easy. But if there was a problem, they wouldn't consider anything such as renqing (sensitivity, human sympathy), they would just insist on what they want. Clients from the UK or USA all belong to this type. I think clients from Canada, Spain and Brazil are warmer and more humane; they are more people-oriented. People from Japan and Germany are the most stringent, most rigorous, and very good regarding creditability. They also have high requirements for themselves. (P.36)

However, informants with a switching stance, despite some personal experience of ITCR awareness or credit risk information sharing, lack experience of the kind of self-dissatisfaction which would drive them to engage in metacognition and an effortful change from their original values. This is because these informants report that the reasons for ITCR are perceived and attributed mainly to external factors such as a buyer's bankruptcy rather than internal factors like a betrayal of affection-based trust.

We rarely have any situations of payment arrears or default. Even if buyers occasionally default on payment, we can basically get the money back. Buyers don't deliberately seek to default on payment sometimes it's simply because of a shortage of cash. (P.43)

For these informants, there is basically no change to their original values from their native culture yet their decision about whether to practice their native values is based on situational demands. When dealing with foreign buyers from interpersonal relationship-oriented cultures, they tend to socialise with these buyers to build affective bonds by eating out and giving gifts, and consistently practice guanxi-related values in ITCRM decisions. In contrast, when dealing with foreign buyers from results-oriented cultures, they act more from a Western non-affective business style.

These informants focus more on flexibility, and are able to behave like a bicultural or multicultural person; someone who can engage in cognitively flexible behaviours and who typically has higher levels of cognitive complexity (Benet-Martinez, Lee & Leu, 2006; Ang & Van Dyne, 2015). For example, as one informant reported, when dealing with foreign buyers who attach importance to interpersonal affective relationships, she tends to judge the credit risk of those buyers, whether or not she shares cultural ethnicity, according to a sense of affective trust.

Alternatively, when dealing with foreign buyers who behave in a results-oriented way, she is more likely to rely on cognition-based trust by checking the transaction history and payment records of these buyers.

In this regard (credit risk management), when buyers from Japan and Germany are very rigorous, we understand these characteristics, and know that we must be very rigorous and stringent as well. For example, we confirm all steps of the transactions, step by step... As long as we confirm every step, we can be relaxed, and don't need to worry about subsequent problems... Clients from other countries such as Spain, they are warm and friendly, and we have a very good relationship with them. But normally they are quite relaxed, and won't confirm all trading details, just some of them... Therefore, we need to be flexible. For Spanish clients, affective communication is still important, we cannot say business is just business. Transactions with them always involve communication and affections. (P.36)

### **7.3.6 Minimising**

For informants in this category, there is basically little or no change to their values hierarchy, because the guanxi-related native cultural values are much less important to them than uncertainty and risk avoidance in ITCRM decisions. With weaker strength of attachment to native guanxi-related cultural values, these informants intentionally minimise the impact of cultural values on ITCRM in order to maintain consistency and limit variations and risks in credit decisions.

Personally, when dealing with foreign buyers, I don't like to treat them like brothers and sisters... Through this method, sometimes we can avoid embarrassment if we don't get involved in renqing (reciprocal obligations) and ganqing (affections)... Our payment methods are always cautious. Before we just use payment in advance. Now with export credit insurance, it is much safer for us, so we can have a peace of mind... Differences in clients' cultural or national background have no effect on our credit management, because everyone knows this rule: that you pay the money and I make the delivery. (P.19)

These informants have been involved in international business transactions for between five and ten years but with limited exposure to foreign cultures, therefore they are less primed by and have less access to alternative foreign cultural categories which could lead to an automatic priming change process. They have some awareness of their own culture and others' culture, but this does not lead to active cultural metacognition.

These informants also report that they had very high uncertainty avoidance and high credit risk awareness when they first entered the foreign trade industry. After the outbreak of the global financial crisis with soaring credit risk, they now have even higher uncertainty avoidance and are very cautious in ITCRM decisions. Therefore, the values of uncertainty avoidance and cautiousness always ranked above interpersonal relationship-related values like *guanxi*, *mianzi*, *renqing*, in these informants' values hierarchy. They tend to use cognitive trust in ITCRM decisions rather than considering any affective bonds.

In terms of payment collection risks, generally, we are conservative... We would rather have fewer clients and less business, and do the business with peace of mind, than take risks with worries and anxieties all the time... We prefer to rank safety and stability in the first place with less trouble... For so many years, there has been no change to the payment methods or business philosophy in our company... We insist on caution all the time. The financial crisis has no effect on our credit risks, although it has some effect on our business volume... This is because we always insist on prepayment, so we have effectively avoided this risk. (P.08)

Actually, the minimising stance is just the opposite of the maintaining stance. There is no change in values hierarchy for both the maintaining and minimising stances. However, the difference between the two stances is that the maintaining stance initially attaches importance to, and still ranks, *guanxi*-related values more highly than uncertainty avoidance whereas the minimising stance initially attaches greater importance to uncertainty avoidance and safety rather than to *guanxi*-related values.

## 7.4 DISCUSSION AND CONCLUSION

Previous research regarding cultural adaptation has mainly focused on the experiences of expatriates, biculturals and multiculturals (e.g. Berry, 1988, 1997; Hong, et al., 2000; Lücke, Kostova & Roth, 2014), and described the ‘outcomes’ of exposure to new cultures.

This study, in contrast, explores the cultural-shifting experience of local trader/suppliers as a result of exposure to business complexities arising from credit risk situations, and foreign cultures which provide intercultural interactions with buyers from different cultures, in international business transactions.

The author’s findings reveal the dynamics of values hierarchy, and provide a process model, elaborating on the ‘antecedents’ that explain how different external factors drive values change, the ‘intermediaries’ that explain how people engage in either an automatic priming process of change or in effortful metacognition about change, and the ‘outcomes’ or the various stances towards native cultural attributes which develop as a result of changes to an individual’s values hierarchy.

This study highlights the importance of situations in making sense of cultural change. Specifically, the findings show that informants may adopt different stances towards native cultural values as a result of adaptation to business complexity and foreign cultural exposure. The presence and development of a particular cultural stance varies with variations in situations resulting in different processes and routes of values change, and different combinations of antecedent drivers through external events.

An important finding is that the development of each cultural stance is contingent upon whether the informant is able to initiate an effortful values change process as a result of metacognition based on self-dissatisfaction or credit risk awareness, or is involved in an automatic priming change process as a result of frequent exposure to cultural stimuli different from native values. For example, some informants are primed by opposing cultural values such as those from an individualistic and results-oriented culture during international business transactions. They may also have experienced self-dissatisfaction, and engaged in an effortful change in values because of personal experience with credit risk, so that they begin to ‘oppose’ traditional Chinese cultural



values. In contrast, other informants, although they have some previous experience of credit risk, and have felt self-dissatisfaction, are only able to 'reflect' on the problems and partly adapt because they lack the experience of frequent priming with other cultural values. This group have not yet completely changed their beliefs and behaviours. Still other informants, who lack any priming from alternative cultures holding opposing values, and have not experienced self-dissatisfaction because they have not personally experienced credit risk, still 'maintain' traditional Chinese cultural values, and practice these values in international trade credit situations.

An individual's likelihood of values change also depends on whether their original values hierarchy is functional for them in their new environment. Those informants with a minimising stance, faced a business environment where credit risk was increasing, especially after the global financial crisis, yet they did not take on any change in values because they initially attached great importance to high uncertainty and risk avoidance, cautiousness and safety, which are values in line with a risky trading environment. Furthermore, the degree to which an informant was able to integrate new cultural categories into a schema without giving up their original values hierarchy, as illustrated in the case of those with a switching stance, also contributes to the process and outcome of values change.

This study also reveals the dynamic transferability of different cultural stances and explores the conditions in which a certain stance emerges. That is, cultural stances are transferable as a result of values change process. For example, individuals may initially 'maintain' native cultural values like *guanxi*, *mianzi*, and *renqing* in a Chinese context, but through international transactions they may frequently be exposed to cultural stimuli counter to native values like those from a Western individualistic results-oriented culture during their interactions with foreign buyers. These individuals are more likely to develop a cultural stance of 'eroding'. If later on, they have some personal experience of credit risk and engage in a conscious change due to self-dissatisfaction, they would be likely to develop the cultural stance of 'opposing'.

As noted earlier in this chapter, the process model includes that finding that values change can occur either through an automatic priming process as a result of frequent cultural exposure, or through a self-motivated effortful change process through metacognition as a result of either

self-dissatisfaction or increasing awareness of international business complexity such as credit risk. This aspect of the model is consistent with the conclusions of Bardi and Goodwin (2011), who propose that without empirical evidence, values change may go through either automatic or effortful routes.

Furthermore, the study highlights the importance of an individual's motivation in the process of values change. For example, in terms of the reflecting stance, despite a lack of frequent exposure to foreign cultural categories which may lead to an automatic change process, self-dissatisfaction from personal credit risk experience may motivate informants to consistently challenge their original values, engage in metacognition, and thoughtfully undertake a change in values.

For those individuals who take the eroding and the opposing stance, disidentification from their native cultural identity and from a group with the same cultural ethnicity drives these individuals to refrain from trading with this group and leads to a shift away from their native cultural values. In addition, these individuals may actively expose themselves to cultures with opposite values by, for example, trading only with buyers from foreign cultures. Although these informants are local nationals who reside in China, and are thus chronically accessible to their native cultural category, disidentification motivates them away from conformity with native norms and practices, and even leads these individuals to consciously oppose them. That is, they not only actively manage their accessibility to local or foreign cultural exposure, but also are able to disrupt the influence of cultural priming on values change. This finding which highlights the importance of motivation (e.g. disidentification) on the effects of cultural primes and foreign cultural exposures is consistent with the research of Zou, Morris, Benet-Martínez (2008), Hong et al. (2000) and Hong and Mallorie (2004). However, their studies employ a research method using experimental priming with bicultural participants, while this study examines local nationals in a real international business context.

The findings presented in this chapter of the thesis especially highlight the importance of a triggering event like the outbreak of the global financial crisis, and suggests that the need to adapt to a new environment and new situations is a very important driver in values change. Although values change can occur at any time, crucial incidents or a triggering event that requires swift adaptation to a new environment may foster a rapid large-scale change in values. However, as

discussed later in Chapter 8 in the case of bounded traders, this adaptation of values hierarchy to a new environment is moderated by some economic factors, such as product competitiveness and product quality.

## **CHAPTER 8 DIFFERENT ITCRM CATEGORIES INFLUENCED BY DIFFERENT CULTURAL STANCES AND VALUES PRIORITIES**

Chapter Six aligned a wide range of cultural beliefs, values, and practices against the total set of ITCRM practices and thereby established that culture can have a powerful impact on ITCRM. Chapter Seven then explained how that impact occurs, by presenting and elaborating upon the author's process model of how intra-individual values change occurs. That model is built upon the empirical findings of the author's research and it includes a set of testable propositions concerning the relationships between antecedent conditions, intermediary conditions, and the value change outcomes.

In addition to explaining the external drivers (antecedents) and the psychological processes (intermediary factors) of values change, Chapter Seven detailed a range of different outcomes - different cultural stances that trader/suppliers are taking towards their original national cultural attributes. Those stances, identified through the author's analysis of her data, were categorised as maintaining, reflecting, eroding, opposing, minimising, and switching. Chapter Seven also detailed the situational factors and psychological processes which account for these variations in adaptation and the differing cultural stances.

Now, in Chapter Eight, we turn our attention to the practical consequences of those six differing stances that supplier/traders are taking toward their native Chinese cultural values. In doing so, the thesis is providing a demonstration of the explanatory power of the author's process model because Chapter Eight shows how the model not only explains the development of differing cultural stances but also explains a range of differing practical approaches to the management of international trade credit risk. Six categories of ITCRM practices adopted by different kinds of informants were found in this study and labelled as 'conventional', 'bounded', 'stereotypical', 'conservative', 'rational' and 'pragmatic' traders.

Table 8-1 summarises the characteristics of these six ITCRM categories, and outlines how the cultural stances and values priorities of individuals impact on their ITCRM practices and credit decisions. However, as described and explained in the following section, in addition to the cultural stances and values priorities held by informants, there are other internal and external factors such as trust (affection-, cognition- and intermediary-based trust), cultural awareness, metacognition, attitudes to different cultural ethnicities, and product competitiveness which also contribute to the informants' ITCRM decisions.

**Table 8-1 ITCRM Categories Influenced by Different Cultural Stances, Values Priorities and Trust Types**

<b>ITCRM Categories</b>	<b>Cultural Stances &amp; Values Priorities</b>	<b>ITCRM Practices &amp; Credit Decisions</b>	<b>Trust</b>
Conventional traders	<ul style="list-style-type: none"> <li>• Maintain native cultural values (guanxi, renqing, mianzi, forbearance, particularism)</li> <li>• Medium level of uncertainty avoidance</li> <li>• Weak internal control</li> </ul>	<ul style="list-style-type: none"> <li>• Informal, particularistic, self-managing ITCRM</li> <li>• Subjective, intuitive credit risk assessment</li> <li>• Exclusive credit privileges to buyers with long-term, affective relationships (especially with buyers from same cultural ethnicity)</li> <li>• Intermediary-sponsored guarantee</li> <li>• Forbearance in payment collection</li> </ul>	<ul style="list-style-type: none"> <li>• Affection- and cognition-based trust highly intertwined</li> <li>• Intermediary-based trust</li> <li>• In-group positivity, and/or out-group negativity</li> </ul>
Bounded traders	<ul style="list-style-type: none"> <li>• Maintaining or reflecting native cultural values</li> <li>• Low uncertainty avoidance</li> <li>• External locus of control, but negotiating with fate</li> </ul>	<ul style="list-style-type: none"> <li>• Risky payment methods; easy credit granting regardless of buyers' background</li> <li>• Credit decisions bounded by low product competitiveness, intensive competition, low bargaining power</li> <li>• Informal ITCRM; high CR awareness but intuitive even no CR assessment</li> <li>• No formal contracts; increasing credit risks</li> <li>• Active payment collection through <i>baotuan</i> cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Cognition- / affection- / intermediary-based trust</li> <li>• Trust of minor importance in CR decisions due to intensive competition</li> </ul>
Stereotypical traders	<ul style="list-style-type: none"> <li>• Native cultural values eroded or reflected</li> <li>• Higher uncertainty avoidance and internal control</li> </ul>	<ul style="list-style-type: none"> <li>• Credit granting decisions prejudice or favour certain groups</li> <li>• Inconsistent, self-managing or partially outsourced ITCRM</li> <li>• High CR awareness; informal, subjective, intuitive CR assessment</li> <li>• Active payment collection</li> </ul>	<ul style="list-style-type: none"> <li>• Mainly cognition-based trust</li> <li>• Biased or prejudiced trust against certain groups</li> </ul>
Conservative traders	<ul style="list-style-type: none"> <li>• Native cultural values minimised, reflected, eroded, or opposed</li> <li>• Very high uncertainty avoidance; high internal control</li> <li>• Emphasis on stability and continuity rather than quick expansion</li> </ul>	<ul style="list-style-type: none"> <li>• No trade credit granting whatsoever; least risky payment methods</li> <li>• Consistent, but informal or semi-formal ITCRM</li> <li>• High CR awareness, but rare CR assessment</li> <li>• Payment collection- not applicable</li> </ul>	<ul style="list-style-type: none"> <li>• Trust of minor importance in CR decisions due to strong uncertainty avoidance</li> </ul>
Rational traders	<ul style="list-style-type: none"> <li>• Native cultural values reflected, eroded, minimised or opposed</li> <li>• High uncertainty avoidance; high internal control</li> <li>• Stress preciseness rather than flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Formal, out-sourced ITCRM; fixed, consistent credit policies</li> <li>• Credit granting secured by financial instruments</li> <li>• Formal, systematic, objective CR assessment</li> <li>• Active, effective payment collection</li> </ul>	<ul style="list-style-type: none"> <li>• Mainly cognition-based trust</li> </ul>
Pragmatic traders	<ul style="list-style-type: none"> <li>• Mainly switching stance; or native values reflected, eroded</li> <li>• Emphasise flexibility, pragmatism, adaptability</li> <li>• Medium level of uncertainty avoidance</li> </ul>	<ul style="list-style-type: none"> <li>• Mixed, flexible, inconsistent ITCRM depending on situation</li> <li>• Mixed payment methods with different risks depending on situation</li> <li>• Credit decisions involving pragmatic, flexible cost-benefit-risk analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Cognition-, affection- or intermediary-based trust depending on situation</li> </ul>

## 8.1 CONVENTIONAL TRADERS

The informants in this category have been described as conventional traders because they preserve Chinese native cultural values (guanxi, ganqing, renqing, mianzi, forbearance, and particularism) and enact these values in their ITCRM decisions. These informants possess a maintaining cultural stance.

Conventional traders are rarely exposed to distinctive foreign cultural stimuli or involved in cultural metacognition due to their foreign language barrier, intercultural communication incompetency, or because they transact with buyers from similar cultural backgrounds. In spite of having only a little or some awareness of credit risk, conventional traders generally do not emphasise certain values such as strong uncertainty avoidance, cautiousness and safety, which are ranked lower in their values hierarchy compared with guanxi-related values. Consequently, these guanxi-related Chinese native values play an important role in affecting the trust building and ITCRM decisions of conventional traders.

The reason that I granted credit for the deal for such a large amount is mainly because we have somewhat guanxi (personal relationships) with each other. Some of the guanxi has been gradually established for a long time. For example, foreign buyers (overseas Chinese) have gradually increased the amount of their orders. Through this process, we have built a good friendship, and also the amount of granted credit has increased... Eventually, I was facing a dilemma, if I no longer granted credit to these foreign buyers, both the friendship and the business relationship would break down. (P.25)

Relatively speaking, in terms of our present clients, basically we wouldn't consider this kind of thing [credit risk]. Why? Because there are some foundations here, some credit foundations, the second is that they are regular clients and we have a long-term relationship. Unless it is the worst situation, some eventuality we can't foresee, we just continue to do business as usual. (P.13)

The ITCRM practices of conventional traders are generally informal, self-managing, flexible and particularistic. They tend to have weak internal control regarding ITCRM decisions, and there are

seldom any formal credit policies in their firms. Credit granting decision-making is normally dominated by key individual executives or managers, rather than based on any formal credit procedures. Credit risk assessment is based on a subjective and intuitive perception, instead of on the kind of objective and formal evaluation of a foreign buyer's financial capability and credit record associated with cognitive trust.

The payment risks are mainly controlled by me, because we are not a publicly listed company, we are just a small company... In terms of payment methods, basically they are all the same for the last ten years... The financial crisis didn't have any effect on our credit decisions or payment methods, because basically our clients are regular clients with whom we have a long-term relationship. (P.13)

When we started doing business, we never assessed credit risk or risk of receivables... When we are familiar with the market and we have clients in this market, we entrust our regular and long-term clients to obtain some credit risk information about any new clients... The decisions about payment methods are mainly made by our boss. For regular buyers with long-term relationships, it is normally a routine procedure for approval. As long as the price has been confirmed, no problem at all. But for new buyers, every deal must be approved. After all, we really cannot afford the losses. (P.37)

Conventional traders are more likely to trust foreign buyers with a long-term transaction history and interpersonal affective relationships. They very often engage in socialising activities such as invitations to dinners, gift-giving and family visits to build mutual trust and preserve business relationships with foreign buyers. Affective closeness is important for trust building and maintenance. More specifically, affection-based trust and cognition-based trust (Chua, Morris & Ingram, 2009) are highly intertwined in credit risk assessment and credit granting decisions for conventional traders.

We basically don't consider the country; our credit decision is mainly based on the nature of our customers. For example, if a customer is introduced by a friend, through a friend's assessment. For some customers, at the very early stages, we might use some stringent payment methods, but at later stages, we generally trust our clients just like friends. (P.42)

The clients that I deal with are mainly regular customers with a long-term relationship, generally they are this kind of client, so usually we are very safe. When sometimes transactions are made with new customers who were introduced by regular customers or friends, it's very safe, very reliable. (P.34)

Particularism is constantly practiced in credit granting decisions by conventional traders. They not only differentiate between foreign buyers according to the duration of affective relationships, but they also hold in-group positivity and/or out-group negativity according to the ethnicity of foreign buyers. The cultural differences perceived by conventional traders may negatively impact on trust building with foreign buyers. Particularly, conventional traders tend to offer exclusive credit privileges and priorities to those foreign buyers with whom they have had a longer affective relationship and those with the same cultural ethnicity or those with similar cultural backgrounds.

Relatively speaking, when dealing with foreign buyers, we only accept orders and do our business on the basis of zero risk unless they open formal letters of credit without any mistakes, otherwise we would not do business... Trade credit is only offered to overseas Chinese. For example, one of my clients from Canada, we knew each other through the friend's introduction... We generally feel greater trust in overseas Chinese, rest assured. (P.13)

Anyway, for foreigners, my feeling is that only when the money has been remitted by them and received by us, can they be trusted... I think that Chinese people sometimes will feel a little guilty, but for them [foreigners], they will not. I feel they are very thick-skinned, and don't concern anything about mianzi [face]. In general, they seem to do things pragmatically, and focus more on practical results. (P.34)

As informants further explained, while language barriers and intercultural incompetency hinder communication and trust-building with foreign buyers from different cultures, conventional traders rely heavily on foreign buyers who share the same cultural ethnicity (overseas Chinese) to export products. Several other reasons such as easier communication, mutual familiarity in cultural practices and business styles, and the belief that it will be easier to handle risks and claim debts afterwards, further contribute to favourable credit-granting decisions to buyers with the



same cultural ethnicity. Nevertheless, foreign buyers without the same cultural ethnicity, but who demonstrate deep understanding of Chinese guanxi culture and with whom suppliers have a long-term affective relationship will still be able to enjoy the benefits of trade credit from Chinese suppliers.

Very rarely do we grant credit, the only circumstances that we would offer trade credit are when we deal with overseas Chinese... The whole process is easy to handle... They are basically Chinese and understand our conditions, so everything is easy to talk about and communicate. (P.20)

Japanese focus more on creditability... And like Chinese, when doing business, they also focus on people; people-oriented. They also prefer to do the business with familiar people, because their culture is similar to Chinese culture... So a lot of our business is with Japanese customers. Generally I think they are less risky... Normally I also prefer to do business with familiar people with long-term relationships. (P.10)

While overseas Chinese can earn trust and obtain credit through guanxi established by direct communication and contact with Chinese suppliers, new buyers from exotic cultures normally need an intermediary-sponsored guarantee, either oral or written, as the basis for trade credit.

In most circumstances, new foreign buyers, who lack or have only a short transaction history with Chinese suppliers and therefore have not established an affective interpersonal relationship or developed cognitive trust, would not receive trade credit unless they had been recommended by intermediaries who are normally close friends of the informants. That is, these foreign buyers have engaged in building intermediary-based trust. Some informants stated that credit would also be granted even if the two parties did not previously know each other, because of such renqing (benefit exchanges and reciprocal obligation) between all parties. The following quote illustrates how the role of indirect relationships in Chinese networks provides sponsorship and a guarantee for credit decisions.

For new foreign buyers, because we are not familiar with each other, if the buyers ask for 70% late payment after having paid 30% deposit, they must have a letter of guarantee from sponsors... The sponsors are normally our acquaintances or someone familiar from the

same industry who is deeply and well known by us... As a supplier, sometimes I also issue a guarantee for my foreign buyers, because I want to keep my relationship with them, but sometimes I grow a little bit tired of this... Anyway, I think it works and does not involve any risk. (P.20)

Generally, if the clients are introduced by my friends, because my friends have had business transaction experience with these clients, then basically I trust them... For example, one of my new clients has had over three year experience with my friend; my friend trusts him; so do I. The trust of my friend for the client will also influence me... Because my friend did business earlier and trusted him, I would just follow, follow the trust. (P.13)

Since trade credit is normally granted to foreign buyers with long-term affective relationships and from the same cultural ethnicity, the corresponding credit risk suffered by conventional traders also occurs with this group of buyers. Conventional traders, however under these circumstances, as they still maintain Chinese native cultural values, are reluctant to take any immediate action against foreign buyers such as prompt reminders about payment, claims, or litigation in the courts. They are more likely to forbear and wait when facing an ITCR situation based on their desire to preserve long-term relationship with foreign buyers and avoid any parties losing face.

If the buyers delayed the payment for a period of time, we basically would not remind them immediately. After all, they would not delay the payment indefinitely; it would be impossible to have that situation. More importantly, an interpersonal relationship is most essential in keeping business going. (P.13)

## **8.2 BOUNDED TRADERS**

Informants in this category are described as bounded traders, because the influence of cultural values, trust and rationality on ITCRM decisions is bounded by external factors, leading them to a position of 'bounded rationality' (Ciabuschi, Forsgren & Mart ín, 2011). Bounded traders are normally owners of micro-enterprises (with only less than 20 employees) and have dominant

influence in ITCRM decisions. These traders have worked in the export industry for over ten years. They have high levels of credit risk awareness with some having had personal experience with credit risk cases yet their ITCRM practices are still highly informal, flexible and based on self-management, and their credit risk assessments are largely intuitive and subjective.

We never used these things [export credit insurance], or paid for these. Generally, we only make a judgment about foreign clients ourselves. (P.23)

We basically make an evaluation based on intuition... People like us, who have worked hard in the market for so many years, more or less have some experience; so generally we are able to judge the credibility of foreign buyers intuitively... (P.21)

Some bounded traders still maintain their Chinese native cultural values based on guanxi, ganqing, and renqing to some extent, although with weaker attachment. They still believe in the importance of affective relationships in credit granting decisions and payment collection. They may very occasionally practice guanxi-related values in ITCRM decisions. Others may be constantly involve in reflecting on ITCR problems and analysing the reasons for ITCR, and attach less importance to guanxi-related values. Due to foreign language barriers, these traders have less opportunity to be exposed to foreign cultural stimuli in interacting with foreign buyers from other cultures and therefore, they are less likely to engage in active cultural metacognition.

We only focus on the client. If I was very familiar with this client through several transactions, I would also build an interpersonal relationship with client... When we are familiar with each other for one or two years, we all become friends. (P.23)

For example, with one of my European clients, we are just like friends... To be honest, for transactions with him, I almost don't have any profit margin. He's just like a friend, we have had a relationship for many years. He knows that I am not making any money. I have also told him that as long as I am not at a loss, I will still keep delivering the goods to him. (P.22)

In this small commodities market, almost all of the foreign buyers are introduced by agents, who provide some translation services and also a complete set of services. (P.21)

In spite of the guanxi-related cultural values they hold, these values no longer play an important role in ITCRM decisions. Affection-based trust, even cognitive trust, are no longer important for bounded traders in credit risk assessment and credit granting decisions. With very high awareness of credit risk, bounded traders tend to have a low trust level with foreign buyers however, this situation does not lead to a more cautious approach in their ITCRM.

With their propensity towards low uncertainty avoidance and low risk avoidance, they would rather take high risks to grant credit to foreign buyers than give up any international orders. Consequently, they compromise on payment methods with foreign buyers which are generally highly risky for them. They grant a high level of trade credit easily, for example, offering an open account net in 30/60/90 days, regardless of the cultural, ethnic, country or company background of foreign buyers. In most circumstances, foreign buyers receive trade credit much more easily from bounded traders, as long as they have a record of three or four previous transactions even of a small amount, despite their lack of a long-term affective interpersonal relationship.

There are very rarely letters of credit, sometimes we use cash in transactions. But in general, granting credit on the basis of open account is a pervasive phenomenon in our city... It's very rare for us to use formal payment methods... Almost all of the transactions here in our city are based on shipment first, followed by payment for foreign clients. All are based on open accounts for one week, normally one month, even three months. (P.21)

As reported by informants, they have the sense that their credit decisions are externally controlled and bounded by a negative destiny which they describe as being 'doomed'. This belief in an external locus of control, which is rooted in local economic reality and cultural norms, prevents bounded traders transferring from intuitive, risk-taking behaviours to more objective, rational credit decisions. That is, these Chinese suppliers are in a situation of bounded rationality.

Now the competition is more and more intense, so this kind of overdue debt is quite inescapable; we have no choice. In the previous old market, there were not so many debts etc. This kind of thing is really unavoidable, and there's nothing we can do about it. (F3.1)

We know that the money could be at risk of not being paid, but we don't have any other ways or choices. It's just like gambling, if our bet wins this time, then we just win. That's

why we feel very tired, tired of doing business here, frustrated... Very often the product design is ready, the order is ready, but the money from the last deal has not yet been paid. (P.21)

The products supplied by bounded traders have low competitiveness in the international market; more specifically, these products are of great homogeneity with lower added value, low quality requirements, lower profit margin, and targeted at the lower end of the market with trading partners usually from developing or the least-developed countries.

You see, in the market, there are basically lower-end products with lower quality. To be honest, it's really difficult... Just like one of my friends, the entry barriers of his products are too low; anyone can produce this kind of products. These products are too common with low-added value, lack of innovation and severe competition, therefore it leads to too much pressure. (P.24)

Only those with high profits are able to buy insurance. If I have just 3% profit margin and give it to the insurance company, then I can't make any money. Of course, I am not willing to give the money to the insurance company... The products we supply are mainly small commodities, with very low profit, so it's impossible for me to pay an insurance premium. (P.23)

The low market entry barriers, together with the local cultural trait of 'genfeng', lead to a situation in some Chinese cities where hundreds of small manufacturers follow the same fashion trend and rapidly replicate similar products with little innovation. Thousands of vendors then try to sell these products at cheap prices. For example, through field observation there are hundreds of vendors selling bags, leather shoes, toys and balloons in just one street. This situation was verified in interviews and focus groups.

Sometimes a manufacturer developed a new product, charged a higher price, say CNY3.5 in the first year, and they would receive a big order. But next year the product was quickly copied by other manufacturers, so when the second manufacturer produced it, the price reduced to 1.5 Yuan. By the time the third or fourth manufacturers produced it, the price was only 1 Yuan... (F4.2)

In our city, maybe, according to incomplete statistics, there are over a thousand small manufacturers, just producing cosmetics, just cosmetics such as makeup, nail art... At least a thousand, including small and large, some of them just small workshops, just for processing... Some of them aren't even included in the statistics. (P.20)

The resulting vicious and intense competition has not only greatly reduced product competitiveness and the profit margin for informants, but it has also weakened their bargaining power in business negotiations. Consequently, competition between small suppliers is not limited to lowering prices and making improvement in qualities and services, but extends to compromising on terms of payments such as granting longer and higher credit to their foreign buyers.

The main reason is that competition is too severe... In fact, there are too many vendors here, too many booths here... Everybody wants cash, so now we just have no choice... If I didn't grant credit to my buyers, they would go away. There must be someone willing to be owed the money. It's impossible for us to stock the goods at home, especially at this time; everyone has a tough time... (P.22)

After the outbreak of the financial crisis, the amount of orders significantly decreased...profits are lower and lower, the overseas buyers also want to reduce their costs... Due to the financial crisis, the terms of credit have extended for an even longer time. Before, we normally traded on terms of open account for half to one month, but now normally it's two months, even longer, sometimes we would be delayed for another two weeks. That is really a big pressure for us... (F4.5)

For those with good kinds of products, it's very normal for buyers to delay their payment for a few days or one week. For those with unfavourable types of products, the payment might be delayed for one month or even longer. For example, there are not too many vendors selling balloons, maybe just over a hundred stalls, the competition is not so fierce; therefore sellers still have some bargaining power. (P.23)

The belief of external control in credit decisions held by bounded traders is also grounded in local cultural norms and customs. Many scholars propose that Chinese culture is characterised by a

belief in an external locus of control such as luck and fate (Goodman, 1995; Gannon, 2004). This belief is described as superstitious rather than religious (Wong, 2001). This kind of superstition is further supported by the interview data.

There is an unwritten rule that the money can't be paid out in the morning. Any debts can only be paid in the afternoon. Although in today's commodity economy receiving and paying money needs to happen throughout the day, so this rule gives us a lot of inconvenience, yet we still cling to this tradition...this is because the morning is the beginning of the day, so if money started to flow out at the beginning, how could wealth be gathered? (F4.4)

As a result of these kinds of beliefs, bounded traders tend to have weak internal control in their ITCRM decisions. There are neither formal credit policies at their firms nor formal safeguard mechanisms such as export credit insurance against credit risk. Due to distrust of the institutional environment and doubt about contractual enforceability in constraining credit risks, these traders seldom sign contracts with foreign buyers. In almost every international transaction, they just have copies of importers' orders rather than formal contracts.

Yes, there are some standard contracts with various detailed conditions, issued by the administration of the wholesale market. These are useless, when we hold these originals [contracts], we even don't know how to use them. What are they for? How can the contracts have some function in preventing risk? Now this is the reality. It's obvious that the buyer owes me money, but there is nothing we can do about it. (P.21)

In terms of financial instruments, big foreign trade companies may use this kind of stuff [contracts]. For us, we never use any financial instruments... We normally export goods through foreign trade agents, and we normally don't make any formal credit investigation of foreign clients. (P.26)

Bounded traders also lack knowledge in how to deal with credit risk by themselves because of low levels of education, and lack of professional skill such as financial knowledge, English competence and intercultural negotiation skills. Moreover, due to minimal profit margins as a

result of vicious competition, bounded traders are unable to afford financial instruments in controlling and transferring credit risk.

I have heard of these financial tools before but I just do not know to handle them. Maybe it's very complex and time-consuming... Although our business is small, we are still busy every day, and don't know how to deal with these financial tools, also because of low education. More importantly, the business atmosphere here is not suitable for these financial instruments. (P.21)

It is basically related to the type of the industry. Because the profit margin in my industry is very low, if you want to buy insurance and pay an insurance premium, basically I won't make any money. The products I sell mainly rely on the volume of the trade, with very little profit, entirely based on quantity. For those who have high value added products, with high profits, they can do it... The era with high profits has already gone a long time ago. Now all suppliers just have minimal profits. With severe competition, we have no choice, nor any hope...(P.23)

Intensive competition and unbridled granting of credit resulted in increasing credit risk and the frequent occurrence of bad debt. As perceived and reported by bounded traders, the credit risk and trust level in their region and in their labour-intensive small commodity industries is growing worse and worse.

Regarding export credit risk, as long as the person has engaged in export in our city, he/she must have an experience of it. For example, if buyers promised to pay money one week later, but didn't make the payment, we then started to worry about it... Now if the foreign buyers promise to pay the money after one month, then another half-month delay is very common. Every supplier here is suffering from this. (P.23)

The credit culture co-created by bounded traders and their foreign buyers is trapped in a vicious circle permeated with mutual distrust and credit risk. As a result bounded traders feel obliged to adopt a sense of destiny-based trust. Interviews with some of the foreign buyers also confirmed the perceived deteriorating trust level and credit culture in this region.



I would like to trade directly with factories. If the factories would like to do business with you, they will provide you with good services and good quality goods. But the traders or agents, they just want to make money, not provide good services. Sometimes, the traders would provide the wrong goods, not those I bought or ordered... But mainly just in this area, other cities are good. (Interview with an Indian Buyer S.7)

I think most of the vendors here in this city are not trustworthy, maybe 80% to 90%, they are not reliable. They change my goods. Therefore, for some good vendors, we paid money upfront, but for some bad vendors, we always receive the goods first... (Interview with a Nigerian Buyer S.8)

Although bounded traders believe that the occurrence of credit risk is somewhat out of their control and subject to fate, luck and vicious market competition, they are ‘negotiating with fate’ (Chaturvedi, Chiu & Viswanathan, 2009; Leung et al., 2002; Au et al., 2012). They also use active coping methods to minimise losses and attempt to make the best of the ITCR situation. As soon as foreign buyers default on payment, bounded traders tend to take immediate action such as actively contacting defaulters, openly demanding repayment of any debts, unhesitatingly reporting them to police and refusing to make the following shipment rather than forbearing from acting on the situation to preserve mianzi and long-term relationships with buyers as the conventional traders would do.

We basically don’t have any supervision of foreign buyers but once we know that the foreign buyer has run away, within three days, the website would disclose it... Then everyone would go to the Economic Investigation Police Office to report the case... There is a mechanism for solving the problems afterwards, but there is no management prior to the events, it’s just based on your luck and fortune. (P.23)

Moreover, these traders are also able to use a local cultural trait, ‘baotuan’ (solidarity and cooperation), to collectively share ITCR information and mutually cooperate with each other to collect overdue or bad debts from foreign buyers. Baotuan is a Chinese native cultural value based on the notion that people can unite their efforts, form alliances and collaboratively resist and control risk especially in coping with adverse situations. Through baotuan, bounded traders alert

each other by word-of-mouth about defaulters and fraudsters, and jointly refuse further shipments to foreign buyers who have defaulted on payment or been recorded on blacklists.

Once, there was a foreign client wanted to buy some balloons. Although we agreed to cash payment in advance, he delayed the payment for about four months, and later he went to other places to buy goods. But through word of mouth, previous suppliers advised other suppliers to refuse transactions with him. Then all of us refuse to make any deals with this particular client, jointly stop the supply of goods to this client. When he comes, we just say we have no stock. (P.23)

### **8.3 STEREOTYPICAL TRADERS**

Informants in this category have the tendency to hold a prejudice or bias towards certain groups of foreign buyers in their ITCRM decisions. Their credit granting decisions are largely derived from their stereotypes: their inflexible, rigid, fixed impressions and oversimplified beliefs that they have generalised about a group of people based on a few members or a few characteristics (Varner & Beamer, 2011). They use these stereotypes rather than basing their decisions on objective judgment of the credit standing of foreign buyers. These informants have been labelled as stereotypical traders.

Risk control is not entirely delegated to sales staff, but involves managers at the beginning of transactions... We have choices about our customers, and we mainly choose some from wealthy Western countries, and middle- to high-end companies... If the values of foreign buyers are not the same as ours, conflict is more likely to occur. So sometimes we screen out clients when necessary. (P.06)

We generally have a prejudgement. For example, for buyers from Europe, Japan or USA, we would ask them to use letters of credit. For buyers from some other Asian countries, we just wouldn't do business with them. (P.33)

Stereotypical traders are no longer in the grip of conventional practice, but adopt eroding or reflecting cultural stances towards Chinese native guanxi-related values. Therefore, they have

broken free of interpersonal relationship-based ITCRM practices. Some stereotypical traders with an eroding stance are able to perceive foreign cultural differences and constantly engage in cultural metacognition which plays an essential role in gradually reshaping their values and practices. Other stereotypical traders, those with a reflecting stance, have high credit risk awareness or have personal ITCR experience and therefore constantly question, doubt and challenge guanxi-related native values, leading to weaker strength of attachment to these values.

There are some cultural differences. For example, although Japanese focus more on creditability and don't have any arrears in payment, I personally can't get along well with them. For buyers from South Korea and Taiwan, they actually are our predecessors in exporting manufactured goods, but I am just personally unwilling to do business with them... Personally, if I think buyers are worthy to deal with, I'll do business with them. I focus more on my feelings. If I don't identify with their thoughts, ideas, values or behaviours, I just try to avoid them. (P.06)

The longer the customer relationship, the more problems... We cannot say customers with long-term relationships are safe, actually we should be more careful with these customers... Most of these credit risks are premeditated, so we can't say these customers are safe, we can't blindly trust them...(P.39)

In contrast with conventional traders who have a preference for buyers with long-term relationships and are of the same cultural ethnicity (overseas Chinese), stereotypical traders normally have high identification with certain groups (especially buyers from Western countries and with Western cultural values), and/or experience disidentification to other groups (buyers with same cultural ethnicity such as overseas Chinese, those with similar cultural values to their own, or those from certain countries). They are more likely to rely on cognition-based trust rather than affection-based trust however, their trust level is dependent on their stereotypes about a certain cultural group whether prejudicial or favourable.

We normally have a rough evaluation of the company size, the buyer's character, and whether the buyer is a genuine foreigner. If the buyer is an overseas Chinese, we will generally increase our alertness... We are more likely to trust real foreigners, and have

more caution when dealing with overseas Chinese... Because they [overseas Chinese] are too flexible and not bound by any rules, their credibility is greatly reduced. (P.16)

For stereotypical traders, their ITCRM is still semi-formal, inconsistent, either self-managing or partially outsourced with the support of financial instruments depending upon the situation of each transaction. Their credit risk assessment is generally informal, intuitive and subjective, resulting in credit granting decisions that may favour or prejudice against certain cultural groups depending on their stereotypes about these groups. That is, identification and preference with certain cultural groups may lead to more credit privileges available to them and disidentification with other cultural groups may lead them to reject trade credit in any business transaction with buyers from these groups.

In fact, our credit assessment is not scientific, but mainly based on our feelings and intuitions. There are no formal investigations, not at all. If buyers from some Asian countries want to purchase our products, and demand shipment, we don't always agree. (P.33)

The buyers to whom we offer trade credit are generally from the United States, because their entire country uses credit ratings. If a buyer didn't make a payment and we made a claim against him/her, it would affect their credit record, a poor record, and affect their loans... We are more familiar with the US, and know that in the US, a person's credit record is very important. But for other countries, there is very little possibility to grant credit. (P.39)

As reported by informants, with increasing knowledge of the large number of reported bad debt cases with overseas Chinese buyers, they have developed a sense of out-group positivity and in-group negativity. They hold stereotyped views that their own credit culture is not as healthy as that of other cultures especially when compared with developed countries. Consequently, mistrust, even prejudice and stereotypes against trading partners with Chinese cultural ethnicity has replaced the credit priority given to overseas Chinese buyers by conventional traders.

I have heard of credit risk in my circle of friends; most of them are associated with overseas Chinese. They are not deliberately in default; they just didn't make a good plan

upfront. If they think this product will be popular, they just follow the trend blindly, and place a big order...but soon they find the market is already saturated, all their ordered goods would become stock, especially after several months transport. That's why they have trouble with payment... (P.39)

We have a lot of experience of credit risk, and most of this is associated with overseas Chinese. They are very familiar with Chinese business rules, very experienced. They will say that our products have problems and request return of the goods... Now, we generally don't do any business with overseas Chinese...(P.35)

With some credit risk awareness, even personal credit risk experience, stereotypical traders have higher uncertainty and risk avoidance tendency, and more internal control in credit granting decisions, compared with conventional traders and bounded traders. Their attachment to Chinese native guanxi-related values has been loosened by an increase in foreign cultural exposure and by processing earlier negative experiences with overseas Chinese buyers. Consequently, in the case of payment default for foreign buyers, they are inclined to take active and immediate action rather than practice forbearance in the situation to maintain interpersonal relationships and affective bonds.

Now, we encounter very little credit risk, probably because of our better internal control. In terms of payment method, it all depends on how the company controls it... The reason some companies were bankrupted overnight is because of bad debt and lack of risk-related self-control... If there are any arrears, we ask the financial department to send a notice and request sales staff to pursue the payment. Then we ask sales staff to notify foreign clients and see how quickly the clients respond. (P.39)

Staff at all levels control credit risk... we have a risk control committee to control the risks involved in granting credits, and decide the amount of credit... We had losses before because of credit risk, so now we would rather refuse business. It doesn't matter. Less business is okay. If there is potential risk we would rather not do business. (P.33)

## 8.4 CONSERVATIVE TRADERS

Conservative traders tend to have very high uncertainty avoidance with relatively high credit risk awareness. They place more stress on their firm's long-term stability and business continuity rather than take risks for quick market expansion and short-term benefits. In international transactions, they attach high importance to payment safety, cautiousness and risk avoidance, and strongly believe in an internal locus of control. Therefore, they tend to adopt rigorous business procedures rather than being flexible and adaptable in catering to buyers' payment demands.

No matter what kind of business or service, we must sell for something, so eventually the payment method is most essential; it is the key to the key... So we demand that payment risk must be zero, that is, zero risk; there must be no risk at all. It is our principle, but it is also the reason that our trade volume is not so great. Some people indeed have a large trade volume, but their business may close down because of just one bad debt... We would rather have fewer clients and have peace of mind than be anxious and worried all the time. (P.08)

These traders no longer maintain the Chinese native guanxi-related values of renqing, mianzi, ganqing, and forbearance, but adopt eroding, reflecting, minimising, and even opposing cultural stances towards these values. Together with very high uncertainty avoidance, guanxi-related values are far less important than risk avoidance. Therefore they focus more on economic benefits and the financial result rather than their interpersonal affective relationships with foreign buyers.

There are many Chinese who like to address each other as brothers or buddies, and to borrow money from you, and so on. In those situations, you need to have a clear mind to avoid make mistakes. You must believe strongly that rules are rules that can't be broken. (P.29)

When dealing with clients, I think we must insist on a consistent method of payment. We can't be relaxed when the clients become regular buyers or when they build up long-term relationships with us. (P.15)

High uncertainty avoidance leads to a very cautious approach to credit granting decisions. Conservative traders are not willing to take any risk involved in trade credit, and allow only the least risky payment methods such as 100% buyers' payment before delivery/shipment, or a letter of credit—a payment method based on banking credit rather than buyers' credit. That is, for conservative traders, there is no trade credit granting whatsoever even when transacting with foreign buyers with whom they have a long-term or affective relationship. Consequently, payment collection after delivery is no longer applicable. Even if there was any credit risk in payment collection after delivery, as informants mentioned, they would take active and quick actions rather than refrain from acting for the sake of an interpersonal relationship.

We all demand zero risk... We don't allow any payment after delivery; we only allow prepayment... The key is that we request prepayment. If the client accepts it, then we can do business; if the client doesn't accept it then we just refuse the business. This is our bottom line...because in today's international market, there are many credit risks associated with foreign clients, no matter whether intentionally or not, more and more risks. So we simply refuse the business, just in case the payment would be defaulted or deceived... So we don't have any credit risk at all... No payment, no delivery, to avoid the problem of payment risk. (P.08)

The ITCRM practice of conservative traders is mainly self-managing, informal or semi-formal, but it is always fixed and consistent regardless of the cultural, ethnic, or national background or credit standing of foreign buyers. Conservative traders might have stereotypes against certain groups or hold in-group negativity attitudes, and hold cognitive trust or intermediary-based trust in business transactions at a lower trust level with foreign buyers but trust building is of little to importance in credit risk assessment and credit granting decisions. Actually, conservative traders seldom get involved in credit risk assessment because buyers make full payment before delivery. As far as payment decisions are concerned, the level of trust between trader and buyer, whether affection-based or cognition-based, is not relevant.

The decision about the payment terms is only made by the general manager. There are no credit risk management manuals, no specific accounting policies. The decision is mainly

controlled by me. Since our company has set up this rule that we only accept prepayment, we just tell our clients that it is our company policy. (P.08)

Our payment methods are all the same, consistent all the time...We don't have any departments or staff for credit risk control, the decision-making authority is basically in my hands, or sometimes it's made by the departmental managers... We sometimes undertake credit risk assessment but actually it is very rare. (P.15)

In contrast to the factors affecting bounded traders, conservative traders experience just the opposite. While bounded traders face vicious competition in the market, conservative traders are in industries without intensive competition (due to high quality requirements, inspection standards, etc.). While bounded traders operate with very low uncertainty avoidance and believe in an external locus of control, conservative traders operate with very high uncertainty avoidance and strongly believe in the importance of internal control of credit decisions.

Most of the clients are not willing to make the prepayment, so these clients are eliminated by us... Some of my friends are in the foreign trade industry, and the most difficult thing is the payment issue. Some of them agree on trade credit for two or three months, but later the payment has gone. They don't have control in their own hands. There are only a few people like us. We rank safety and stability first, and prefer to have fewer troubles. (P.32)

We have a guarantee for quality assurance... Before shipment, there is a special inspection, which is normally conducted by an independent third-party inspection company...so the protection for buyers is the inspection report, including quantity, quality, and then the buyers make payment, otherwise they have no basis for payment. (P.09)

Furthermore, although both conservative traders and rational traders (as discussed below) apply high uncertainty avoidance, their credit granting practices are entirely different. Rational traders use additional financial instruments such as export credit insurance in safeguarding against credit risks, therefore they are able to frequently grant credit to foreign buyers. Conservative traders, in contrast, due to their lack of financial knowledge, distrust, or unaffordability of financial tools, never use financial instruments but generally rely on full payment before delivery, and therefore they never grant credit to foreign buyers.



We don't use any financial tools, because actually we are not involved in this kind of problem anymore. We don't have any considerations in this regard. The clients we currently cooperate with have accepted our payment methods because through inspection, our clients have accepted our products and approved our business approach... For small companies like ours, this [prepayment] is the only way to avoid risk. (P.32)

Export credit insurance also has high risk, and in case there is a problem, it can't give us 100% compensation... We actually hope that our business can prevent all payment default. Our aim is to receive payment, rather than take too many risks in order to open up the market. (P.15)

## **8.5 RATIONAL TRADERS**

Rational traders, like conservative traders, have high uncertainty avoidance and high credit risk awareness. They also place more emphasis on the firm's long-term stability and payment safety rather than flexibility and quick expansion. They do not devotedly adhere to Chinese native guanxi-related values, but consistently reflect on, challenge, erode, or even oppose these values, as a result of foreign cultural exposure and increasing credit risk experience. They are also more results-oriented rather than interpersonal relationship-oriented.

For marketing, the main sources of clients are trade fairs. Others include introduction through friends... However, friends now just play the role of introduction or middleman, they don't play a role in trust. We cannot decide and say this client is trustworthy just because he or she was introduced by a friend. So before a transaction, now we need to investigate clients through credit insurance... Now if there's no investigation; no business. Sometimes we have the problem that the company was really very, very big, had hundreds of stores, but after the financial crisis or other unexpected events, it went bankrupt...(P.05)

The ITCRM practice of rational traders is generally formal and fixed, with consistent credit standards and policies. Their emphasis on payment safety, cautiousness and risk avoidance also leads them to be very cautious in credit granting decisions.

Nevertheless, this group differs from conservative traders who demand full prepayment without granting any trade credit that is, they use the least risky payment method. Rational traders feel able to grant a high level of trade credit to foreign buyers and use medium to high risk payment methods. This is because rational traders are able to use out-sourced ITCRM instruments to control and transfer credit risks. They use financial tools such as export credit insurance, factoring and forfeiting to increase trading volume without assuming a high level of credit risk.

Export credit insurance is important; we should effectively use these tools. When running a company, now loss prevention is just same as making money, we need to look at it in the long run, not be short-sighted. (P.07)

For buyers from different countries or cultures, our credit management policies are basically the same and consistent... We will have a judgment about the company's competency, its history and size... We are very cautious. Certainly insurance is essential, and insurance company also has very strict requirements, especially in certain countries; more demanding requirements. (P.05)

Further exploration of the data finds that rational traders generally have a higher educational background or business professional skills together with some financial knowledge. In contrast with bounded traders, rational traders export products with higher quality, higher international competitiveness, and a higher profit margin therefore they are able to afford additional financial tools in safeguarding credit risk. They generally trade with foreign buyers from developed countries with sound credit systems, and believe their institutional environment is effective for contractual enforceability and the application of financial instruments.

For different buyers, the insurance premiums are different, right? So we would rather pay higher insurance premiums as long as the prices allow us to do so, and we must have very strict policies for insurance in our company. (P.05)

Our company's risk management has gradually improved. At the beginning, we didn't have credit insurance, and relatively weak risk awareness, so the credit risk was relatively large, and a lot of money wasn't paid. But now we have strengthened our management in

this regard. After taking on credit insurance, we generally entrust the insurance company to investigate a buyer's credit, so the risk has been greatly reduced. (P.45)

With a strong belief in an internal locus of control, rational traders place greater emphasis on internal risk control beforehand rather than recourse, claim and remedy afterwards. They tend to adopt rigorous transaction procedures, and emphasise negotiation, confirmation, and sign formal written contracts rather than orally discussing trading conditions when socialising with customers over dinner.

Now all aspects have been improved, they're much better than before. In general, we would investigate the credit standing of buyers, for example, through the Chinese Export Credit Insurance Company, so we have very good control beforehand. (P.04)

Generally the credit risk situation in our company is good. This is because before we grant trade credit, we would consider the credit status of the customers at an early stage. Prior controls are much more important than the controls during or after a risk. (P.18)

The credit risk assessment of rational traders is very formal involving systematic analysis of credit risk indicators and objective judgement of foreign buyers' competence to pay, rather than the informal and intuitive assessment used by conventional, stereotypical, bounded, and conservative traders. They rely heavily on credit assessment by financial institutions such as export credit insurance companies and factoring firms because of the affordability of relevant assessment fees. With the assistance of financial instruments, formal credit risk assessment allows rational traders to objectively select credit-worthy buyers regardless of the buyer's cultural or ethnic backgrounds or their interpersonal relationship.

Trust, more specifically cognition-based trust rather than affection-based trust, plays an important role in credit risk assessment and credit granting decisions for rational traders. Their identification, disidentification, stereotypes, bias or prejudice towards certain cultural groups has almost no impact on their credit granting decisions. Foreign buyers, who are able to earn cognition-based trust by providing factual evidence of their credit records and their competency to pay, either to Chinese suppliers or outsourced financial institutions, are more likely to negotiate more favourable payment methods and receive more trade credit.

After the 2008 financial crisis, we now go beyond normal considerations in credit checks, because a lot of big companies collapsed after the financial crisis. Now we would check through the export insurance company, and assess whether everything is okay with the foreign buyer. Only after the insurance company confirms the buyer is okay, in that condition, would we then start the negotiation...(P.05)

Generally, at present, cultural differences or cultural similarity do not influence our credit risk management any more, they basically have no influence. Now we normally treat all buyers the same, no matter whether they are overseas Chinese or foreigners; all the same. Overall we are quite formal or standardised. (P.01)

In the case of payment default by foreign buyers, rational traders tend to discount guanxi-related values and are able to engage in active, quick and effective payment collection especially with the assistance of out-sourced ITCRM of financial institutions. They report to financial institutions like export credit insurance companies within the stipulated time period to claim compensation.

We normally use emails to contact the buyers, and let the buyers explain the reasons [for payment default] and any problems they have. Then we just keep reminding them and pursuing them. Sometimes, if they have branches in China, we will go straight to their branch offices to have a face to face talk... The insurance company requests us to report a delayed payment within a certain period of time, two months or three months, then we must report it otherwise we can't get the compensation back. (P.06)

## **8.6 PRAGMATIC TRADERS**

While rational and conservative traders emphasise consistency in ITCRM decisions, pragmatic traders focus on flexibility and adaptability under different circumstances. They give priority to what works best and stress whatever pragmatic solution is required in a particular situation. They tend to act flexibly contingent on situations such as dealing with buyers from different cultures, countries and with different cultural ethnicities and cultural identities, and adapt to the various cultural differences in each international transaction.

Pragmatic traders are mainly those with switching stances towards Chinese native cultural values. That is, they are able to hold values relevant to other alternative foreign cultural categories without giving up on their Chinese category and they are able to switch among different cultural categories depending on the situation. Nevertheless, pragmatic traders may also hold reflecting or eroding cultural stances, which means their value structures are either constantly challenged or they may even grow unstable and become eroded. Like switching informants, they are also able to adjust to the expected norms and behaviours in different intercultural contexts.

For some of the clients who are rigid and focused on rigorous arrangements, then I would confirm everything with the clients, even the most tiny thing, and get explicit feedback from the clients. For this type of client, they are very careful beforehand, so we would try to reduce dissent and avoid problems afterwards. Details are essential... But for Spanish clients, they are relaxed beforehand, and prefer to sign a vague contract, and their confirmation for the products is more ambiguous. They are more people-oriented, so we focus more on the interpersonal affective communication, unless there is force majeure, otherwise most of things can be communicated and solved... Affection is essential. (P.36)

In this regard, pragmatic traders are utilitarian, and they act flexibly to their own benefit in responding to situational demands. For example, they may adopt results-oriented or relationship-oriented behaviours whenever beneficial to them and suitable to the particular situation. They may constantly reflect on themselves and shift away from Chinese native *guanxi*-related values when facing buyers' payment default and opportunistic behaviour. However, in business transactions, they may still rely on *guanxi* and *renqing* if corresponding practices are still workable and beneficial under certain circumstances. They also consider the importance of controlling credit risk while still maintaining interpersonal relationships with foreign buyers.

Pragmatic traders mainly rely on cognition-based trust in credit decisions, but may build on affection-based or intermediary-based trust depending on certain situations. They also do not have a bias or prejudice against certain groups of foreign buyers in credit decisions like stereotypical traders.

We have had experiences of being deceived where the payment was defrauded but we have learned from this... So I think money should be settled as soon as possible, and affections should be kept as long as possible... Risk management is important; it all depends on how you control it. (P.14)

Our responsibility is to open up the overseas market... We focus more on the market, and analyse the clients, who probably may become a friend, it's all based on my judgement... Sometimes I have very good guanxi [interpersonal relations] with some clients, and concern about the mianzi [face], but other times, I would not do so when dealing with other clients. (P.38)

Pragmatic traders have high credit risk awareness, however, they differ from conservative traders and rational traders whose ITCRM decisions are straightforward and based on consistent credit policies and standards. Instead, pragmatic traders tend to adopt inconsistent, flexible ITCRM contingent upon the situation. That is, their ITCRM practices may be formal or informal, self-managing or partially outsourced with formal credit services, and their agreed payment methods are mixed with different credit risk according to the situation.

Regarding payment methods, we offer various kinds, such as prepayment, open account, letter of credit, and documents against payment etc., used for different situations. An open account could be 30, 60 or 90 days—all different. For this type, the insurance premium is a little bit higher... The buyers would not completely follow our terms... For some big companies, if they are strong, we then make some adjustments... (P.17)

We have many kinds of payment methods, depending on the size of orders, the types of countries... We sometimes use prepayment before delivery, for small volume orders, and for some African countries, for example, for small commodities delivered by air and the order involves thousands of dollars, and if the clients are able to accept it. (P.43)

These traders do not rely on consistent credit policies because they believe in the principle of 'social complexity' (Bond, Leung et al., 2004) as a result of encountering transactions and buyers with increasingly complex and perplexing credit risk situations like the multiple cultural identities

of foreign buyers. Thus their credit granting decisions are dependent on particular situations and transactions.

Like the United States and other culturally diverse countries, they consist of multi-ethnic groups such as Latino, African American, Asian, Jewish, Hispanic, Chinese, etc. This will cause complexity in credit risk judgment... For us, they are really diverse, for example, the people working in a US company, they are individuals operating the company from different countries. They also include overseas Chinese...therefore this has increased our difficulties in judgement. (P.43)

Sometimes, there is a situation where the foreign buyers are emigrants, for example, they migrate from developing countries to developed countries, they may have two cultures mixed up at the same time... therefore, what we need to do is discover the truth, and find out what they really think about... (P.14)

Although pragmatic traders may also face the problems of low profit margin, intensive market competition, unaffordability or less accessibility to financial instruments, they differ from bounded traders in that they have higher internal control of credit granting decisions. They are more likely to struggle with situations, engage in conscientious credit risk assessment, and make credit granting decisions according to the characteristics of each transaction.

Although the general principle is that transactions with a large amount need to be insured, and those with small amounts needn't be insured, it is far from being so simple. What actually is the safest? Any rules, any transactions, it all depends on your own judgement of yourself, the risk control, self-control... How to control? Not so easy, it's very complex...(P.38)

A credit granting decision by a pragmatic trader is a process of flexible cost-benefit risk analysis, with consideration of various internal and external factors. In addition to the formal hard information considered in the credit risk assessment for rational traders who assess financial backgrounds, credit standing and records, transaction history, and company size of foreign buyers, pragmatic traders also consider various soft information depending upon different transactions, such as the foreign buyer's social responsibility, reputation, status in the industry and brand

popularity, the mode of transportation and partial shipment, the buyer's negotiating strategies and requirements for price and quality. They also engage in particular consideration of the buyer's cultural background, cultural identity among multi-cultural identities, cultural ethnicity and perceived cultural differences. According to their consideration of these factors, they adopt different credit risk assessment and credit granting decisions. A full list of factors considered by pragmatic traders in their credit risk assessment and credit granting decisions is attached in Appendix M.

Sometimes the pragmatic trader's approach to credit risk assessment is informal and unsystematic and based mainly on integrative intuitive judgments. They may receive credit risk information through searching the internet, as part of the contract negotiation process or by word-of-mouth from other suppliers. They may even go abroad and engage in an on-the-spot examination. At other times, they turn to formal credit risk assessment services of financial institutions through an export insurance company.

We consider many aspects. First, we normally look at the company's size, its history. For example, if the company has a long history, it is generally big, and has fewer risks, right? The second element would be the country, like European countries, they focus more on management... Third, we also find our information about the company through other channels, for example, how are they going with business in other parts of China... (P.44)

Regarding credit risk assessment, actually face to face international business negotiations, such as discussion about the trade terms are also part of the process of judging risks. For example, at a foreign trade fair, if a foreign buyer comes to our booth and keeps saying our products are good, doesn't ask for a price reduction, and doesn't have any disagreement with our trading conditions, sometimes they are simply not sincere about doing business. Conversely, if a buyer is quite picky in product quality, and stays longer in our booth, they may sincerely want to do business with us. (P.14)

In case of foreign buyers' defaulting on or delaying payment, pragmatic traders may wait, show forbearance about the situation, or engage in active payment collection depending on the circumstances, considering for example the different cultural background and time orientation of

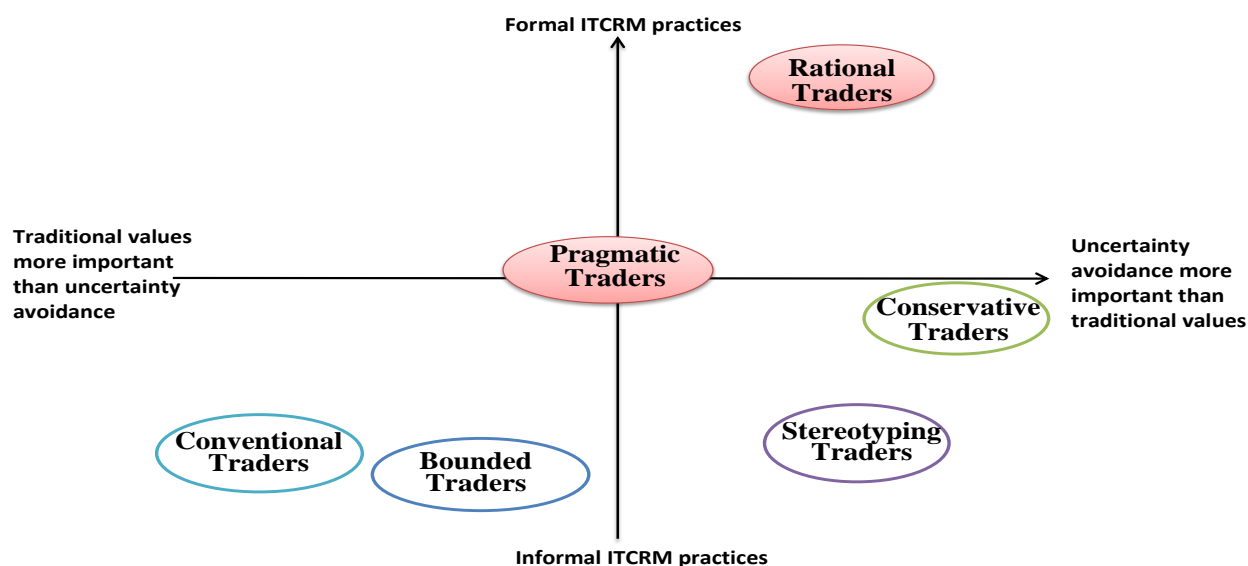


the foreign buyer. In contrast to the consistent collection practices of rational traders, pragmatic traders may use a variety of payment collection methods or credit risk remedy strategies under different circumstances according to the characteristics of various buyers. For example, as one informant reported, although he constantly challenged native values especially *guanxi* and *renqing*, he sometimes uses *guanxi* to collect overseas debts or assess credit risks because of anticipated benefits.

Buyers from different countries have different preferences. Some want to make the payment strictly in accordance with a stipulated time and amount, others might make the payment within a floating period of time such as a month... Therefore, within a wide range, we are generally able to accept buyers' differences. As long as we can receive payment, we won't insist on strict compliance with the contract. We would make some adjustment when dealing with different buyers. For example, when dealing with some buyers from a certain region, if payment has been delayed for one month, we would wait a little bit longer. But for other regions, we probably would think there might be some problem... Sometimes we ask overseas Chinese students or our overseas friends to help us communicate with the client. No matter how we achieve it, we have interpersonal connections all around the world. (P.30)

## **8.7 DISCUSSION AND CONCLUSION**

To put it as simply as possible, the six categories can be illustrated as in Figure 8-1 in terms of informants' degree of formality of ITCRM practices (formal or informal ITCRM) and their values hierarchies (the relative importance of uncertainty avoidance versus traditional native cultural values—*guanxi*-related values).



**Figure 8-1 ITCRM Categories Along with ITCRM Formality and Cultural Values Priorities (Illustrated in Chart)**

For example, conventional traders maintain traditional native values and rank them as more important than uncertainty avoidance, and adopt very informal ITCRM practices. They normally give credit privileges only to clients with the same cultural ethnicity, especially those with a long-term relationship, and tend to use affective trust in ITCRM decisions.

Bounded traders still maintain native values but constantly reflect and challenge these traditional values. They adopt even more informal and intuitive ITCRM practices. Despite high credit risk awareness, they normally use risky payment methods, and readily grant trade credit to clients regardless of their backgrounds. This is because many of them sell homogenous products which leads to intense competition in the market. Therefore, as reported by informants, they are more externally controlled and have ‘doomed-destiny’ beliefs when giving credit.

Both the stereotypical and conservative traders have had their traditional Chinese values eroded. They rate uncertainty and risk avoidance as more important than traditional guanxi-related values. However, in terms of trade credit decisions, stereotypical traders are normally biased against or towards certain groups such as those with the same cultural ethnicity or similar cultural

background, while conservative traders normally use the least risky payment methods, and never grant trade credit to any buyer in order to maintain business stability and continuity.

Rational traders are the only category who uses formal, consistent ITCRM practices in international trade. They normally have opposite or eroded traditional Chinese cultural values, and value uncertainty avoidance highly. In contrast, pragmatic traders are able to act flexibly, and use mixed ITCRM strategies in different situations. Sometimes they switch among different cultural categories when dealing with clients from diverse cultures and adopt a range of ITCRM practices accordingly.

It should be noted that informants may not only transfer between different cultural stances through the process of values change (as discussed in Chapter 7), but also shift between different categories of ITCRM practice.

For example, some informants reported they have transferred from the conventional category to the stereotypical category due to either foreign cultural exposure or personally experienced credit risk cases. They initially stressed native cultural values like guanxi-related values, and expressed in-group positivity and out-group negativity in assessing trust level and in credit granting decisions. However, with frequent and repeated exposure to foreign cultural stimuli in intercultural interactions, their values hierarchy was challenged and eroded. With increasing awareness of bad debt cases with overseas Chinese, they gradually developed disidentification to buyers with this cultural ethnicity. Consequently, they were no longer in the grip of conventional practices, and modified their ITCRM practices. With higher uncertainty and risk avoidance, they cancelled previous credit privileges to buyers with the same cultural ethnicity, and developed stereotypes and out-group positivity and/or in-group negativity in trust building and credit decisions.

Now we generally don't want to give credit to overseas Chinese, mainly for two reasons. The first is that they are too familiar with China, too smart, they are too proficient in understanding the Chinese market and business style... The second is that there may be some risks. Our company has also experienced bad debts with overseas Chinese before... In only a very few cases, foreigners delayed payment. Even if sometimes they delayed the

payment, they notified us beforehand. But for Chinese, if they want to delay the payment, they just do it. The money is in arrears one week after another. (P.10)

Similarly, rational traders reported that increasing awareness of credit risk drives them to transfer from conventional to more rational credit decisions. With higher uncertainty avoidance, stronger internal control, and increasing knowledge of financial credit services, they tend to adopt more formal, objective, consistent ITCRM practices on the basis of cognition-based trust, rather than informal, particularistic, subjective ITCRM on the basis of affection-based trust as conventional traders do. Especially, after a ‘triggering event’ like the outbreak of the global financial crisis which led to suddenly soaring credit risk in international trade, informants’ moves towards more rational ITCRM practice has transformed from the previous succession of small-scale incremental alterations to a large-scale radical change. The government-led education and credit insurance company’s training further strengthened this change.

As also reported by some bounded traders, they initially used very conservative ITCRM practices and only accepted full payment in advance, that is, they did not grant credit to foreign buyers at all. However, with increasing intensive competition and consequent lower bargaining power, these traders felt externally controlled to take higher risk and grant more credit.

Before we clustered together in the Yiwu Small Commodities Market, we had comparatively higher profits. The business size was not so great, but the competition was not so fierce. During that time, we granted much less credit, we actually didn’t need to grant credit... Now the market is so big, we are forced to do so [grant credit]... So this kind of problem is frustrating and has made us helpless. (P.21)

Now the competition is becoming more and more intensive, so when facing bad debt, we are quite helpless. In the old market, there were no such problems, no such defaults or delayed payments, not so many buyers fleeing away... In the old market, the trading volume was not so great. I have been here in the market for over ten years. We previously used cash in advance as the payment method, but now all accounts are open. (P.23)

While rational traders who trade products with high competitiveness believe the credit system in China and their ITCRM is becoming more and more effective, bounded traders who trade products with lower competitiveness report that credit and trust level is becoming worse and worse. The following informants’ narratives contrast these two opposing views.

After credit insurance emerged, it substantially reduced the payment risk... It should be said China's foreign trade passed through a process of gradual development, during this process, foreign traders continuously improved their skills and risk awareness. Twenty or thirty years ago, our management skill was generally low, so the risks were high. But after so many years of practice and experience, we learned from our lessons, and the ability to prevent risk has increased...(Rational Trader P.01)

Now the market has entered into a vicious cycle mainly caused by the business environment here... When foreign buyers come, they hold cash, and they want to pay the money when buying goods. But they learn from agents, if the agent delayed the payment for one month, they also delayed the payment for one month. If the agent delayed the payment for two months, they also delayed the payment for two months. One followed another and as a result, the rules of the game have been broken. (Bounded Trader P.23)

Although both rational and bounded traders were exposed to increasing credit risk as a result of the financial crisis, their change in ITCRM practices demonstrates different outcomes. This leads to the co-existence of not only the opposite values in a society like higher uncertainty avoidance and strong internal control for rational traders versus lower uncertainty avoidance and weak internal control for bounded traders. There is also co-existence of various ITCRM practices adopted by different local suppliers such as rational, formal, objective versus intuitive, informal, and subjective credit decisions.

Furthermore, it is noteworthy that some informants are beginning to shift from one category of ITCRM practices to another. Therefore, they may have the characteristics of different categories. For example, some informants have transferred from a reflecting to an opposing cultural stance (P.05, P.38). Some are likely to be flexible and pragmatic within a rational scope of credit decisions around factors like various timing for payment collection but require strict compliance with the stipulation of export credit insurance (P.05, P. 14) so that they have the characteristics of both rational and pragmatic traders. A list of cultural stances and ITCRM categories of informants is summarised in Table 8-2.

**Table 8-2 Cultural Stances and ITCRM Categories of Informants**

<b>Informants</b>	<b>Cultural Stances towards Traditional Native Values</b>	<b>ITCRM Categories</b>
P.12	Maintaining	Conventional traders
P.13	Maintaining	Conventional traders
P.20	Maintaining	Conventional traders
P.25	Maintaining	Conventional traders
P.34	Maintaining	Conventional traders
P.37	Maintaining	Conventional traders
P.42	Maintaining	Conventional traders
P.10	Maintaining, but changing to Reflecting	Conventional, but changing to stereotypical traders
F4.3	Maintaining	Bounded traders
F4.5	Maintaining	Bounded traders
P.22	Maintaining	Bounded traders
P.24=F4.4	Maintaining	Bounded traders
P.21=F3.1	Reflecting	Bounded traders
P.23	Reflecting	Bounded traders
P.26	Reflecting	Bounded traders
F4.2	Reflecting	Bounded traders
P.16	Reflecting	Stereotypical traders
P.35	Reflecting	Stereotypical traders
P.06	Eroding	Stereotypical traders
P.33	Eroding	Stereotypical traders
P.39	Eroding	Stereotypical traders
P.27	Reflecting	Conservative traders
P.28	Eroding	Conservative traders
P.32	Eroding	Conservative traders
P.29	Opposing	Conservative traders
P.15	Opposing	Conservative traders
P.08	Minimizing	Conservative traders
P.09	Minimizing	Conservative traders
P.03	Reflecting	Rational traders
P.07	Reflecting	Rational traders
P.45	Reflecting	Rational traders
F2.1	Opposing	Rational traders
P.01	Opposing	Rational traders
P.02	Opposing	Rational traders
P.04	Opposing	Rational traders
P.18	Opposing	Rational traders
P.05	Opposing, but changing from reflecting	Rational traders, but pragmatic
F5.1	Minimizing	Rational traders
P.19	Minimizing	Rational traders
P.11=F2.2	Reflecting	Pragmatic traders
P.40	Reflecting	Pragmatic traders
P.38	Reflecting, but changing to Opposing	Pragmatic traders
P.17	Eroding	Pragmatic traders
P.31	Eroding	Pragmatic traders
P.41	Eroding	Pragmatic traders
P.30	Switching	Pragmatic traders
P.36	Switching	Pragmatic traders
P.43	Switching	Pragmatic traders
P.44	Switching	Pragmatic traders
P.14	Switching, but changing from Opposing	Pragmatic traders, but rational

### **8.7.1 Theoretical Implications**

The finding that informants apply different categories of ITCRM practices as a result of different cultural stances and values priorities contributes to a more finely grained understanding of the role of culture in international business behaviours and practices. Cross-cultural comparative studies contend that the impact of culture on people's thinking and behaviour is chronic and coherent, based upon a high consensus of cultural values within a country. This study, however, has identified a dynamic diversity of cultural values amongst the trader/suppliers of Zhejiang; it has highlighted the importance of situation or circumstance; and it argues that the impact of cultural values on international business decisions - particularly ITCRM decisions - is not straightforward, but varies depending on the situation and an individual's propensities.

Furthermore, each category of cultural stance and ITCRM practice has contingent efficacy and legitimacy depending on the prevailing circumstance. For example, due to language barriers and intercultural incompetency, conventional traders still hold traditional native values, rely on an interpersonal relationship with foreign buyers with the same cultural ethnicity to export products, and grant credit particularly to this group of buyers. In contrast, bounded traders face a situation of intensive competition, but with smaller amounts of transaction, so these suppliers prefer to grant credit to many buyers to prioritise international orders.

Native cultural values, particularly *guanxi*, *mianzi*, *renqing*, forbearance, and particularism in Chinese cultural context, may have some impact on ITCRM decisions, but this is limited to the category of conventional traders who still maintain and adhere to these values. For other categories of Chinese suppliers with different cultural stances, native cultural values may be much less important than uncertainty avoidance and cautiousness as in the case of conservative and rational traders. Bias, prejudice and stereotypes may completely exclude certain groups of foreign buyers in credit decisions as is the case of stereotypical traders. Product competitiveness and bargaining power may bind suppliers in their credit decisions as is typical for bounded traders. These factors reduce the influence of native cultural values on the credit decisions of these suppliers.

As discovered in this study, except for conventional traders, an individual's values hierarchy and beliefs, in addition to their ranking of native cultural values, plays a central role in the ITCRM decisions of suppliers. For example, with very strong uncertainty avoidance and high internal

control, conservative traders place more emphasis on business stability and continuity and therefore avoid granting trade credit at all. Similarly, rational traders have high uncertainty avoidance and high internal control, and stress precision in international transactions. They therefore adopt more formal and consistent ITCRM practices. Pragmatic traders, who place emphasis on the value of flexibility, are able to act appropriately and adopt different ITCRM practices depending upon the situation. Bounded traders, with very low uncertainty avoidance, believe in an external locus of control and ‘negotiable fate’ when facing intensive market competition. Therefore they tend to take on a high level of risk to grant extensive credit but also actively engage in payment collection.

This study has also discovered that the influence of native cultural values and the individual’s values hierarchy on ITCRM decisions can be bounded by internal or external factors. Individual internal factors include the informant’s attitudes and stereotypes towards cultural ethnicity and cultural differences, individual motivations such as identification and disidentification with different cultural groups, and their trust propensity whether affection-based, cognition-based, or intermediary-based trust. External factors such as product competitiveness and the associated bargaining power of both parties, together with the intensity of market competition, may also moderate the impact of values and cultural stances on ITCRM decisions, as in the case of bounded traders.

### **8.7.2 Practical Implications**

From the above discussion, we can see that conventional, bounded, stereotypical and conservative traders have some limitations in their ITCRM decisions. According to the cultural stances, values priorities, ITCRM characteristics and trust behaviours of each category of suppliers, and based on the data from this study, some strategies to assist suppliers to improve their ITCRM and credit granting decisions are proposed. This study also includes suggestions for overseas buyers on ways to build appropriate trust to obtain trade credit, as well as suggestions for local governments and industry associations of exporting countries to further assist local suppliers to improve their ITCRM. Brief suggestions are summarised in the Table 8-3.



**Table 8-3 Practical Implications of This Research (Suggestions for Suppliers, Buyers and Governments)**

<b>ITCRM Categories</b>	<b>Suppliers</b>	<b>Overseas Buyers</b>	<b>Government/Industry Associations</b>
<b>Conventional traders</b>	<ul style="list-style-type: none"> <li>• Increase CR awareness</li> <li>• Build formal, consistent, impersonal ITCRM policies</li> <li>• Improve financial department functions; separate customer liaison and marketing from ITCRM functions</li> </ul>	<ul style="list-style-type: none"> <li>• Understand traditional Chinese values to earn affective trust</li> <li>• Cultural competency facilitates trust building, conducive to credit obtaining</li> </ul>	<ul style="list-style-type: none"> <li>• Promote CR awareness</li> <li>• Advocate cultural values of risk avoidance and internal control; Use cultural priming strategies in persuasion</li> <li>• Help SMEs to build formal CRM policies</li> </ul>
<b>Stereotypical traders</b>	<ul style="list-style-type: none"> <li>• Be careful of stereotypes which cause loss of important buyers</li> <li>• Build formal ITCRM, and minimise impact of prejudice on credit decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Provide credit evidence to earn cognitive trust</li> <li>• Engage in tentative transactions with prepayments to earn trust</li> <li>• Obtain credit guarantees from a third party</li> </ul>	<ul style="list-style-type: none"> <li>• Help SMEs to build formal, consistent, impersonal organisational CRM</li> <li>• Build formal credit evaluation system and credit checking services</li> </ul>
<b>Bounded traders</b>	<ul style="list-style-type: none"> <li>• Increase bargain power by improving product competitiveness</li> <li>• Stress formal contracts and retain transaction evidence</li> <li>• Formulate formal credit policies to improve internal control</li> </ul>	<ul style="list-style-type: none"> <li>• Build cognitive trust by providing credit evidence</li> <li>• Conform to contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Regulate market to prevent vicious competition</li> <li>• Increase SMEs' risk awareness; promote value of risk avoidance and internal control</li> <li>• Build credit evaluation systems easily available to suppliers</li> </ul>
<b>Conservative traders</b>	<ul style="list-style-type: none"> <li>• Use out-sourced formal ITCRM and financial instruments to increase competitiveness by granting trade credit while reducing risks</li> <li>• Increase ITCRM knowledge, develop formal ITCRM policies</li> </ul>	<ul style="list-style-type: none"> <li>• Provide credit evidence to earn cognitive trust</li> <li>• Obtain credit guarantees from a third party</li> </ul>	<ul style="list-style-type: none"> <li>• Help SMEs to build formal CRM</li> <li>• Increase credit and financial service availability to suppliers, by improving credit insurance</li> <li>• Build credit evaluation system easily available to suppliers</li> </ul>
<b>Rational traders</b>	<ul style="list-style-type: none"> <li>• Develop formal credit policies in case of insufficient credit from financial institutions</li> <li>• Stick to contractual fulfilment; meet the requirements of financial institutions to ensure reimbursement and remedy</li> </ul>	<ul style="list-style-type: none"> <li>• Make payment promptly to prevent a poor credit record</li> <li>• Engage in trust building to gain favourable credit terms</li> </ul>	<ul style="list-style-type: none"> <li>• Promote fair competition of financial institutions (especially export insurance companies) to reduce credit service rates</li> </ul>
<b>Pragmatic traders</b>	<ul style="list-style-type: none"> <li>• Set up formal ITCRM departments or positions, develop formal company ITCRM policies</li> <li>• Effectively balance flexibility and consistency, customer relationship and CR controlling</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on both cognitive and affective trust building to facilitate obtaining credit</li> </ul>	As Rational traders (above)

#### ***8.7.2.1 Suggestions for the Conventional Category***

Supplier/traders who fall into the conventional category are more likely to increase their ITCRM abilities if they can increase their credit risk awareness, focus more on cognition-based rather than affection-based trust, and adopt formal credit risk assessment. Formal, consistent and impersonal credit policies should be developed at the organisational level to minimise the impact of native values like *guanxi*, *ganqing*, *renqing*, *mianzi*, forbearance, and particularism on individual credit decisions and to improve the function of financial departments. Different departmental functions, especially the marketing function of liaison with customers for sales, should be separated from the credit granting function to ensure that credit decisions are impersonal. Furthermore, although values are a central schema with an overarching influence on an individual's thinking and behaviour, conventional suppliers could be more frequently and repeated primed with certain values, especially 'internal control'. This could be achieved, for example, by attending risk management seminars, while results-oriented values could be primed through learning English language or interacting with buyers from results-oriented cultures to minimise the impact of *guanxi*-related values on ITCRM practices.

Overseas buyers, when trading with conventional traders, could develop familiarity with Chinese native *guanxi*-related values to become more able to earn affection-based trust, and to move towards 'in-group' member status, and thus be eligible for more trade credit. Local cultural and language competency would also facilitate trust-building with local suppliers and in turn, be conducive to obtaining trade credit.

The local government or industry association could also help conventional traders to build formal and consistent ITCRM policies and departments, promote more credit risk awareness through training and education, and advocate values of higher risk avoidance, internal control and preciseness in international transactions.

#### ***8.7.2.2 Suggestions for the Stereotypical Category***

In addition to the strategies recommended for conventional traders, stereotypical suppliers could engage in more formal, probably out-sourced credit risk assessment in order to make more objective credit decisions. They should be careful of the stereotypes they apply which may cause

them to neglect important foreign buyers. They could also increase their awareness of other cultures and cultural groups to avoid bias or prejudice in credit decisions.

When seeking to trade with stereotypical suppliers, overseas buyers could actively provide credit evidence like a credit certificate issued by banks or formal credit institutions or transaction records with other suppliers in order to earn more cognition-based trust from local suppliers and increase their credibility. Several tentative trial transactions with full payment in advance or intermediary-sponsored credit/payment guarantees from a third party like a formal credit agency or from another supplier, could also help overseas buyers to obtain more cognition-based trust from local suppliers.

The local government or industry association could also assist stereotypical suppliers to build formal, consistent, impersonal ITCRM policies and departments at the organisational level to help minimise the impact of stereotypes and prejudgement about trust and credit decisions. Developing formal credit evaluation systems that could be accessed by local suppliers, would also facilitate credit checking of foreign buyers.

#### ***8.7.2.3 Suggestions for the Bounded Category***

Bounded suppliers are more likely to improve their ITCRM ability to make objective, rational credit decisions, if they can increase their bargaining power with foreign buyers. This would involve improving product competitiveness and increasing profit margins through product innovation and marketing differentiation strategies. They could also place more emphasis on and abide by formal contracts, ideally retaining transaction evidence to facilitate payment collection and credit risk remedy actions.

Frequent and repeated priming with the beliefs of internal locus of control through attending risk management seminars and improving ITCRM knowledge, could also help bounded suppliers to formulate formal credit policies and increase their ability to exert internal control on credit decisions.

Overseas buyers, when trading with bounded suppliers, can normally obtain trade credit easily. Nevertheless engaging in trust building through affection-, cognition-based or intermediary-based trust could further facilitate obtaining credit.

The local government or industry association could also assist bounded traders by regulating their market to avoid intensive vicious competition, and building credit evaluation systems which are easily available for local suppliers. Promoting more credit risk awareness and advocating the values of higher risk avoidance, business continuity and a belief in internal control could also facilitate local suppliers to make more objective, rational ITCRM decisions.

#### ***8.7.2.4 Suggestions for the Conservative Category***

Conservative suppliers are more likely to increase their ITCRM abilities if they consider using out-sourced credit services and additional financial tools like export credit insurance to increase their competitiveness by granting trade credit to foreign buyers while still circumventing risk. This will help them expand their market while simultaneously avoiding credit risk. They could also engage in increasing their ITCRM knowledge, and developing formal credit policies at an organisational level.

Overseas buyers from suppliers from a conservative category, similar to when trading with stereotypical suppliers, could actively provide credit evidence to earn more cognition-based trust and increase credibility. Tentative trial transactions with full payment in advance, or intermediary-sponsored credit/payment guarantees from a third party could also help overseas buyers to obtain more cognition-based trust from local suppliers.

The local government or industry association could also help conservative suppliers by increasing the availability of credit and financial services like export credit insurance, as well as building formal domestic and international credit systems to facilitate credit record checking. They could also help conservative suppliers to build formal ITCRM policies and departments to facilitate credit decisions.

#### ***8.7.2.5 Suggestions for Rational Category***

Most rational suppliers already have formal, objective ITCRM policies, and are able to secure trade credits with financial instruments like export credit insurance to enable them to grant credit

to foreign buyers to increase their competitiveness while effectively controlling risk. Nevertheless, as reported by some informants, there are still strategies for further ITCRM improvement. For example, they could set up formal ITCRM departments or positions, and develop formal credit policies especially inside-company credit granting policies in case of an insufficient external credit quota out-sourced from export insurance companies or factoring firms. They could also consider flexibility in granting credit in consideration of both customer relationship and risk control. These traders could promote the values of preciseness, not only to impose rigorous credit policies, but also to conform to contract terms and avoid transaction disputes. As suggested by export insurance companies, rational traders should also strictly meet the requirements of credit insurance companies for effective payment collection and CR remedy in case of buyers defaulting payment, in order to be eligible for reimbursement. To ensure eligibility, they need to carefully retain trading evidence such as contracts and correspondence emails, and report overdue debts within the time limit.

Overseas buyers, when trading with rational suppliers, should stick to their contracts and make payment in accordance with the contract to prevent a poor credit record. They could also engage in trust building (mainly cognition-based) to gain more favourable credit terms.

The local government could also assist rational suppliers by promoting fair competition among domestic and international financial and insurance institutions thereby reducing credit service rates to more affordable levels for suppliers.

#### ***8.7.2.6 Suggestions for Pragmatic Category***

Pragmatic suppliers are able to act appropriately in responding to different situational demands. They adapt to cultural differences in each international transaction and adjust to the expected norms and behaviours involved in ITCRM decisions when trading with buyers from different countries and cultures. Strategies for further ITCRM improvement include using out-sourced credit services and other financial tools to increase the market competitiveness by granting trade credit while circumventing risks. They can also consider setting up formal ITCRM departments or

positions, and developing more formal company CRM policies to effectively balance flexibility of maintaining customer relationships while controlling credit risk.

Overseas buyers, when trading with pragmatic suppliers, are able to enjoy the benefits of flexibility including adjustable credit and payment collection by suppliers. Nevertheless, trust building through either cognitive or affective trust with suppliers is still important for obtaining credit. These buyers would be able to earn more affection-based trust if they could increase their Chinese cultural awareness and language competency and also build more cognition-based trust through actively providing credit evidence or obtaining intermediary-sponsored credit or payment guarantees from a third party.

To conclude, the heterogeneity of an individual's cultural stances and situations should be taken into account when foreign trade companies design their credit risk management strategies, when insurance companies seek to promote credit insurance products, and when local governments seek to improve ITCRM abilities of local suppliers.

Special attention should be given to bounded traders. A failure to address their situation may lead to continuing high levels of credit risk in their trade, and a sense of ongoing frustration, disappointment, and dissatisfaction with local government policies. Suppliers in this category may also co-create a credit culture which progressively deteriorates leading to ongoing experiences of distrust, and opportunism toward their foreign trading partners. That situation would be detrimental for the international trade credit environment of China and its trading partners. Furthermore, simplistic promotion of 'risk avoidance' values by local governments and credit insurance companies is insufficient in some circumstances. It is more important to take a determinedly realistic approach to uncovering and understanding the origins and deep sources of credit risk problems, and then to facilitate change in values and beliefs, to promote a belief in a greater 'internal locus of control' in their ITCRM decisions.

## CHAPTER 9 THESIS DISCUSSION AND CONCLUSION

This study has explored and detailed the major challenges faced by Chinese trader/suppliers as they simultaneously respond both to business complexity and cultural clashes in their daily interactions with foreign buyers from various countries. The research context of significant international trade credit risk difficulties faced by these suppliers has been a prolonged problem and is a substantial real world issue worthy of immediate investigation in China. The experiences and circumstances of international trade credit risk situations provide Chinese suppliers with 1) an opportunity to be exposed to and learn new cultural repertoires; 2) cues and triggers that may encourage them to select and enact particular repertoires; and 3) crises and complexities which may motivate them to engage in an effortful change in cultural values and ITCRM practices.

Although the cross-cultural comparative approach has been dominant in international business-related cultural studies for many years, this approach regards culture as a unitary, monolithic entity that is relatively static and stable, and assumes there is a high consensus of cultural values which are widely shared by its members in a society. There is very little exploration in the cross-cultural literature of the mechanism of cultural change and how culture is accessed and enacted by individuals.

In contrast, this author's research is based on a concept of culture which builds upon studies exploring cultural multiplicity (Hong & Mallorie, 2004; Oyserman & Sorensen, 2009; Brannen, 2009; Faure & Fang, 2008; Brannen & Salk, 2000; Chiu & Hong, 2006) and values change (Bardi & Goodwin, 2011). The central contention is that culture is not completely shared in a society, but rather dynamically created, internalised and reproduced among interconnected individuals who may adopt different stances towards native cultural attributes contingent upon situations and processes that are differently cued and activated to influence values.

This thesis provides a thick contextualised description of, and explanation of, the interplay between culture and ITCRM faced by Chinese suppliers in the international business context. The empirical data upon which the findings are based has been integrated and triangulated and is drawn from multiple qualitative methods (focus groups, semi-structured interviews, field observation, and document analysis). Through an iterative, interpretive approach to data analysis,

this study reveals significant findings which are explained through theoretical analysis of the empirical data. The practical implications of this study are significant and worthy of consideration to address challenges in ITCRM for Chinese suppliers.

## **9.1 THEORETICAL CONTRIBUTION**

### **9.1.1 Association between Cultural Factors and ITCRM Decisions of Chinese Local Suppliers**

This study contributes to a better understanding of the influential links between the cultural factors (values, practices, and beliefs) and ITCRM decisions of local suppliers in China. In addition to the value dimensions discussed in contemporary cross-cultural comparative theory (Hofstede, Hofstede & Minkov, 2010; House et al., 2004; Trompenaars & Hampden-Turner, 2012), this study reveals how Chinese native cultural factors are associated with the practice of ITCRM in Zhejiang, China. The array of cultural factors include: 1) Chinese native cultural values such as *guanxi* (interpersonal relationship), *renqing* (reciprocal obligation), *mianzi* (face), *baotuan* (solidarity and cooperation), harmony, and forbearance; 2) cultural practices such as the disregard of contracts; 3) general beliefs such as the locus of control. The focus of this study, therefore, is a response to the repeated call for research into the different layers of elements of culture. The research findings reported in this thesis articulate the dynamic interaction of these cultural elements, and demonstrate how cultural values, beliefs, and practices operate to produce six distinct categories of ITCRM decisions.

Based on the matrix coding queries of NVivo, this study also examines the influence of various cultural factors on different sequential elements of ITCRM, and shows that credit granting decisions and payment collection are the elements most affected. Moreover, the study contributes to a better understanding of credit risk management by refining the ITCRM framework into ten different sequential elements: CRM Orientation, CR Information and Communication Sharing, CR Perception and Awareness, CR Assessment, Credit Granting Decisions, CR Control and Transfer, CR Monitoring, Payment Collection, CR Remedy and CRM Review, and Continual Improvement.



However, the impact of Chinese native cultural factors (particularly guanxi-related cultural values), on ITCRM decisions is only operative for the category of suppliers who still maintain these native cultural values (the ‘maintaining’ stance) and consequently adopt ‘conventional’ ITCRM practices. Further analysis and explanation of the data derived from this study leads to the contention that even though culture continues to shape behaviour long after the originating circumstances have changed, the grip that culture has on its members can sometimes be broken. In response to complex and perplexing circumstances, individuals and groups of individuals can loosen the hold that culture exerts on them and become more able to choose from a range of stances toward native culture and business practices, rather than adhering to a traditional but sometimes ineffective stance.

### **9.1.2 Contribution to Understanding of Chinese Modern Culture**

Chinese native cultural attributes, especially ‘guanxi’ (interpersonal relationship) and related values such as ganqing, renqing, mianzi, particularism and forbearance, have been extensively researched in extant studies. While some studies argue that guanxi is part of the Chinese national cultural identity (Davies et al., 1995; Su et al., 2003) and that it continues to play a prominent role in contemporary Chinese business relationships (Chua, Morris & Ingram, 2009; Fan, 2007), this study demonstrates that only a limited proportion of international business practitioners in China still conform to guanxi, particularly in the context of ITCRM decisions investigated in this study. Many other trader/suppliers, in order to respond effectively to their experiences of business complexity and cultural clashes in international business, adapt to the new business environment and tend to shift away from their native cultural attributes. This ‘shifting away’ has significant implications for future research on Chinese native cultural values such as guanxi and their impact on international business behaviours and practices. Understanding the intra-cultural variations of Chinese trader/suppliers practicing guanxi-related cultural values will also help foreign businesspeople to reduce cultural shock and avoid clashes while doing business in China.

### **9.1.3 Contribution to Understanding Intra-Cultural Variations: Is Culture Completely Shared?**

This study contributes to a better understanding of intra-cultural variations (rather than inter-variations or cross-cultural variations) and the ‘imperfect sharedness’ of culture. The data analysis reveals that there are six different cultural stances: ‘maintaining’, ‘reflecting’, ‘eroding’, ‘opposing’, ‘minimising’, and ‘switching’ towards native cultural attributes, which are being taken by informants. Some suppliers with an opposing cultural stance adapted their values and behaviours to new circumstances, in ways that run counter to the norms of native Chinese culture. Other suppliers with reflecting and eroding cultural stances only partly adapt their values, and some do not appear to adapt at all and still maintain their traditional values. Still others, those with a switching culture stance, are able to switch between different cultural categories and act appropriately according to the situation.

Based on the results of this study, therefore, the author argues that national culture is not completely shared among the members of a national population. Even the cultural category of local nationals who have never travelled or lived overseas may also be ‘contaminated’ as a result of exposure to the stimuli of foreign cultures and the complexity of international business. Therefore their behaviour and values may not be culturally interchangeable with the attributes of the national culture.

The finding that there are six distinct stances toward native cultural attributes provides evidence of nonconformity with the national culture, and a range of intra-cultural variations. This finding is consistent with the conclusions of other researchers (Berry, 1988, 1997; Brannen, 2004; Caprar, 2011; Hong et al., 2000; Lücke, Kostova & Roth, 2014). While these researchers mainly focus on the cultural adaptation experiences of expatriates, biculturals, multiculturals or host-country nationals working in MNCs, this study focuses on the cultural-shifting experience of local suppliers in the international business context, who face cultural and business situations which differ from other previous categories.

This study demonstrates that even mono-cultural individuals differ in the ways that they are affected by the culture they share. Mono-culturalists are adopting a range of cultural stances towards

native cultural attributes as a result of a variety of intercultural experiences and their capacity for cultural learning in different situations. Local suppliers (a category of local nationals) are normally regarded as mono-cultural who have a single dominant values structure and interpretative schema relating to culture. This study demonstrates that although they may never have had long-term experience living overseas in another country and have chronic accessibility to their native cultural category, their original values structure may be eroded as a result of frequent exposure to other cultures through interactions with foreign buyers and responding to the business complexity of credit risk situations.

The study also contributes to the understanding of intra-cultural variation by investigating the conditions and processes that give rise to these variations. Extant research mainly provides the ‘outcomes’ of adaptation as a result of exposure to new cultures. This study, in contrast, provides a process model exploring the adaptation experience as a result of exposure to both business complexity (credit risk situations) and foreign cultures (intercultural interactions with buyers from different cultures) in international business transactions. More specifically, the process model elaborates not only the ‘outcomes’ (various stances towards native cultural attributes as a result of changing processes within individuals’ values hierarchies), but also the ‘antecedents’ (how different factors drive changes in values), and the ‘intermediaries’ (how people engage in an automatic priming process of change and/or the effortful metacognition of change).

#### **9.1.4 Contribution to Understanding Cultural Values Change at the ‘Individual’**

##### **‘Intra-Cultural’ Level**

This study underscores the importance of the dynamic aspects of culture and in doing so it contributes to an understanding of the mechanism of cultural values change at the individual level. The study demonstrates that values change is not isolated. Change in one value may result in accompanying changes in other related values. The most important changes in values and practices change reported by informants in this study include shifting away from native cultural values such as *guanxi*, accompanied by a decrease in the related values including *mianzi*, *renqing*, *ganqing* and forbearance, as well as changing from interpersonal relationship-oriented to more results-oriented practices. Other important changes include attaching more importance to

uncertainty avoidance, internal control, preciseness and cautiousness and thus changing from flexible to more stringent ITCRM practices. This is consistent with the conclusion made by Rokeach (1973), Schwartz (1992), Bardi et al. (2009), and Maio et al. (2009) that change in one value does not occur in isolation. If one group of related values is ranked more highly in the values hierarchy, another group of related values would necessarily become less important.

Studies regarding cultural values change at a ‘cross-cultural’ national, societal or individual level, such as convergence, divergence and crossvergence research streams (Inglehart, 1997, 2000; Ralston 1997, 2008) provide a broad brush explanation of the process and the driving influences of culture change. In contrast, as illustrated in Table 9-1, this study explores cultural values change and sense-making processes of individuals from an ‘intra-cultural’ perspective as they deal with new and troubling circumstances. It shows how Chinese native cultural values such as *guanxi*, *mianzi*, *renqing* and forbearance advocated by Confucianism and other historical antecedents, have an enduring effect on Chinese society, yet are now being challenged and modified by the informants in this study when they actively respond to troubling complexity and crises in international business transactions.

This study highlights the importance of analysing culture and cultural values change at the ‘individual’ level because individual behaviour reveals the influence of culture on international business behaviour and on practices such as ITCRM decisions. The discovery of different stances towards native cultural values signifies that the ways in which individuals process culture and adapt their behaviours appears to be highly relevant in particular ITCRM situations. Individuals may adopt different cultural stances, and practice native cultural values to a greater or lesser extent contingent on different situations and the prevailing economic and social circumstances.

Although this study focuses on the change of cultural values at an individual level, it still leads to a greater understanding of cultural dynamics at other levels, because culture is created by interconnected levels so any change of values and behavioural norms at an individual level will reciprocally influence higher levels of culture through a bottom up process (Erez & Gati, 2004).

**Table 9-1 Research Contribution to Cultural Values Change**

<b>Dimensions of cultural values change</b>	<b>Convergence Stream (Karl Marx)</b>	<b>Divergence Stream Inglehart (1997, 2000)</b>	<b>Crossvergence Stream (Ralston 1997, 2008)</b>	<b>Research Contribution of This Study</b>
<b>Drivers of change</b>	Economic, Political, or Technologically-Driven (Economic determinism)	National-Cultural Heritage Driven; Culture independent from economic, political or technological changes (Cultural determinism)	Dynamic Synergistic Interaction of Sociocultural and Business Ideology Influences	Different Combinations of Cultural, Interactional, Troubling, Environmental, and Persuasive factors; Importance of a Triggering Event;
<b>Directions of change</b>	Convergent to modern values (e.g. Western capitalism) Narrowing Differences	Preserve divergence of cultural values; change with different trajectories; distinctive values persistent	Develop into new and unique values systems	Contingent upon situations; Co-existence of different stances towards native cultural attributes
<b>Speed/time frame</b>	Decades, generations	Distinctive values long-held and enduring	Transitory/temporary	Small alteration or large-scale radical change
<b>Processes of change</b>	One-way	Remain persistent, path dependent	Dynamic synergistic interaction	Priming or metacognition; automatic or effortful change
<b>Adaptability of cultural Values change</b>	Changeable	Persistent	Changeable	Adaptability contingent upon situations (e.g. primed by opposite values, metacognition abilities)
<b>Level of analysis</b>	National cultural values	National cultural values	Individual values, but also cross-culturally	Individual values, intra-culturally

### **9.1.5 Contribution to Understanding the Mechanism of Individual-Level Cultural Values Change**

#### ***9.1.5.1 External Drivers of Cultural Values Change***

This study contributes to understanding of the mechanism of cultural values change at the individual level by comprehensively exploring the drivers, directions, different routes and different processes of values change (See Table 9-1).

In terms of external drivers as antecedent factors of cultural values change, a traditional perspective suggests that there are four categories of macro-level influences: sociocultural, economic, political and technological factors (Webber, 1969; Inglehart, 1997, 2000). Similarly, the crossvergence perspective proposes that cross-cultural drivers of individual-level values change are a dynamic synergistic interaction between sociocultural and business ideology influences including economic, political and technological factors (Ralston, 1997, 2008).

In contrast with the above research streams, this study reveals that intra-cultural change in cultural values at the individual level is influenced by a combination of cultural, troubling, interactional, persuasive and environmental factors. For example, interactional factors such as information sharing, communication about cultural values like uncertainty avoidance, and related practices such as more cautious ITCRM decisions, have all been found to be important in driving values change because culture is co-created by interconnected individuals. Troubling factors such as ITCR situations, as well as persuasive factors such as government training, also drive informants to engage in metacognition and effortful process change.

This study also highlights that although cultural values change can occur at any time, a crucial incident or triggering event such as the outbreak of the global financial crisis that requires adaptation to a new environment, may expedite a change in values from ‘small-scale incremental alterations’ to ‘large-scale radical change’. The findings also suggest that the need to adapt to a new environment and new situations is a very important driver in individual values change. This adaptation in the values hierarchy to fit a new environment is also moderated by business or

economic factors such as product competitiveness and market competition intensity as in the case of bounded traders.

It should be noted that different external factors (drivers) may lead to different processes of values change of individuals. For example, cultural factors such as frequent repeated exposure to foreign cultural cues and stimuli may result in an automatic priming change process. This is consistent with the studies of Hong et al. (2000). However, whereas Hong et al. (2000) employs the cultural priming experiment and mainly focuses on the cognition and frame-switching experience of bicultural individuals as a result of ‘early-life’ socialisation in two or more different cultures, this study explores changes in the dynamics of the values hierarchy as a result of exposure to varying cultures and business complexities ‘later in managerial life’. Moreover, cultural factors as well as other external factors such as troubling, persuasive, interactional, and environmental factors may lead to a conscious effortful process of values change.

#### ***9.1.5.2 Directions of Cultural Values Change***

This study has also highlighted the importance of the interaction between situation and culture. Intra-cultural variations can be better understood by taking the situation or context into consideration. In a society, various stances toward native cultural attributes including maintaining, reflecting, eroding, opposing, switching and minimising stances, may co-exist. The presence of a particular cultural stance varies with the situation, and such variability depends on the type of external drivers (such as cultural or troubling factors), the route of values change (priming or metacognition) and the process of change (automatic or effortful change). Furthermore, individuals may practice native cultural values to a greater or lesser extent and adopt different cultural stances which are dynamic, transferable, and also contingent upon different situations.

#### ***9.1.5.3 Processes of Cultural Values Change***

In terms of the processes of cultural values change at the individual level, the study shows that change can occur either through an automatic (unconscious) priming process as a result of exposure to intercultural situations, or through an effortful (conscious) change process through metacognition as a result of response to international business complexities such as ITCR situations. This finding is consistent with the viewpoints of Bardi and Goodwin (2011) who

maintain that values change may go through different routes, although they do not provide empirical evidence of their perspective.

In particular, this study highlights the importance of motivation and thoughtful effort in values change. Self-dissatisfaction and credit risk awareness may motivate informants to reflect on and challenge their original values, and to actively engage in metacognition and values change. Disidentification from their native cultural identity and groups with the same cultural ethnicity also motivates informants to manage their cultural exposure process and shift away from native cultural values.

Furthermore, change can be initiated at a cognitive level through shifts in values and beliefs such as transferring from a lower to a higher level of uncertainty avoidance, followed by a change in behavioural level such as more cautious ITCRM practices, or there may be a shift in the reverse direction as illustrated in the case of some rational traders. However, a change of values and beliefs could be spurred by a triggering event but without complementary change in practices and behaviours. This is due to resistance based on certain beliefs such as the external locus of control and the influence of economic factors such as intense competition, as illustrated in the case of bounded traders. This study therefore demonstrates that in some circumstances, core cultural values are just as available for change as outer behavioural elements. This is contrary to the viewpoints held by scholars like Bardi and Goodwin, (2011), Hofstede, Hofstede and Minkov (2010) and Varner and Beamer (2005) who contend that outer cultural elements such as behaviours and practices are likely to change more readily, while deeper cultural elements such as values are more likely to change slowly or even to resist change.

#### ***9.1.5.4 Adaptability of Cultural Values Change***

This study further shows that the degree of adaptability of cultural values change is contingent upon the impact of different situations, such as the type of intercultural business experience and the nature of the credit risk situation. For example, whether cultural priming leads to values change is dependent on the type of culture primed. Informants frequently and repeatedly primed with cultural stimuli very different to their native culture are more likely to change their values. In contrast, informants primed with stimuli from a similar culture or with mixed cultural priming



tend to make less change. Furthermore, since metacognition can promote active thinking, reflection and introspection and facilitate effortful problem-solving and adaptation to new environments, informants with high metacognition abilities are more likely to change their values.

#### **9.1.6 Contribution to Understanding ITCRM Practices and Trust Behaviour**

This study shows that in addition to globally accepted ITCRM practices, there are various categories of ITCRM practice adopted by suppliers in emerging markets such as China. Particularly in the Chinese international business context, as suppliers hold different cultural stances and values priorities, and adopt different trust behaviours, they may choose from a range of ITCRM approaches (conventional, bounded, stereotypical, conservative, rational or pragmatic) in different situations. Each category of ITCRM practice has contingent legitimacy depending on the prevailing circumstances. Understanding how different cultural stances are formed and how they impact on ITCRM provides useful insights for local SME suppliers in their efforts to develop effective ITCRM strategies.

The study further contributes to research regarding trust behaviours of Chinese suppliers in an international business context. Guanxi and affective closeness are normally considered important for trust-building among business partners in China. Affection- and cognition-based trust are found to be highly intertwined in Chinese network relationships, especially when Chinese managers are dealing with overseas business partners with the same cultural ethnicity (Chua, Morris & Ingram, 2009; Jiang et al., 2011).

This study, however, demonstrates that there is segmentation and intra-cultural variation of trust behaviour in China. This is because informants may take various stances towards native guanxi-related cultural values when they respond to different situations involving intercultural clashes and international business complexity such as the increasing level of ITCR after the global financial crisis.

In contrast with conventional traders who hold a maintaining stance and attach high importance to affection-based trust, especially with buyers with the same cultural ethnicity, rational traders shift towards and are more likely to use cognition-based trust. Stereotypical traders may hold a

prejudice or bias against certain groups, or even develop a higher level of distrust particularly with overseas buyers sharing the same cultural ethnicity. Moreover, for bounded traders and conservative traders, trust building becomes less important in ITCRM decisions due to intense market competition or very high uncertainty avoidance. Distinctively, pragmatic traders are able to switch among different types of trust behaviour from affection- to cognition-based trust in response to situational demands.

This study can also be contrasted with similar research regarding trust behaviour. While this research demonstrates that some groups of Chinese (Easterners) are moving towards more cognition-based trust in an international business context, other studies which explore the perspective of Westerners, show that those with increased cultural sensitivity may move from cognition-based trust to more affection-based trust when doing business in Asian countries (Shapiro et al., 2008).

## **9.2 PRACTICAL IMPLICATIONS**

Chinese exports account for over 10% of total world exports thus the estimated rate of 5% bad debt is a significant problem worthy of investigation for research purposes. The conclusions of this study will help international trade practitioners such as local suppliers, foreign buyers, and credit insurance companies, as well as governments, develop better ITCRM strategies suitable for SMEs whilst taking into consideration local cultures and the range of cultural stances taken by suppliers.

The findings of this research provide constructive insights into culture-related ITCRM practices, and suggest the value of refining ITCRM strategies so that they accord with local culture and context. As revealed in this study, those suppliers who still maintain certain native cultural values such as *guanxi*, *mianzi*, *renqing* and forbearance but who have weaker uncertainty avoidance, and those suppliers who believe in an external locus of control and disregard explicit formal contracts, are more vulnerable to the credit risk involved in international trade. Consequently, the author of this study proposes that in the Chinese cultural context, the ITCRM improvement strategies for local SME suppliers include: downplaying *guanxi* and its related values such as *ganqing*, *mianzi*

and renqing in trust and credit granting decisions; actively collecting overdue payment from foreign buyers rather than inwardly forbearing to preserve harmony; placing more emphasis on preciseness and cautiousness in credit risk assessment and risk control; emphasising the practice of signing explicit formal contracts and preserving transaction evidence in case of the need for remedy; and highlighting the importance of internal control throughout all steps of ITCRM.

When seeking to understand the impact of culture on individuals' international business behaviours such as ITCRM decisions, it is important to take their cultural stances into account. Native cultural values have different impacts on local suppliers in the Chinese context, leading them to adopt very different ITCRM practices and decisions and therefore different ITCRM improvement strategies should be suggested for the distinct categories of suppliers and practitioners. In the case of bounded traders, the local cultural trait 'baotuan' or cooperation is very useful to support credit risk information sharing and payment collection. Government and financial institutions such as export credit insurance companies should also take these intra-cultural variations into account.

The cross-cultural comparative approach normally contends that international business behaviours are culturally bounded so that the influence of mean-value dimensions is exerted on all cultural members. The discovery of varying stances towards native cultural attributes in this study highlights the interaction between situation and culture, and the importance of intra-cultural variation. The author of this study argues that it may not always be useful to regard culture as a static monolithic nation-wide (or society-wide) entity. Likewise it may not be appropriate to assume that culture will play the same role for all members in a society especially in an international business context such as with ITCRM decisions. Nevertheless, the cultural dimensions revealed in a cross-cultural comparative approach can serve as a starting point to allow further exploration of a range of intra-cultural variations and different cultural stances. It is because of their particular intra-cultural variations and distinct stances that individuals apply cultural dimensions to differing extents in their international business decisions.

Furthermore, the impact of culture on international business behaviours such as ITCRM decisions may also be constrained by other economic factors as in the case of bounded traders. Although bounded traders still maintain native cultural values and place emphasis on affection-based, or

intermediary-based, trust in addition to cognition-based trust, the economic situations they face such as intensive competition, low bargaining power, and low product competitiveness force them to devalue the importance of native cultural values so they tend to downplay any type of trust in their credit decisions. Special attention needs to be given to bounded traders. A failure to address their situation may lead to ongoing high levels of credit risk in their international trade, and a sense of ongoing frustration with local government policies. They may also co-create a credit culture which progressively deteriorates with ongoing experiences of distrust and opportunism toward their foreign trading partners. Furthermore, simplistic promotion of ‘risk avoidance’ values by local governments and credit insurance companies is not sufficient in some circumstances. It is more important to take a more realistic approach which recognises the need to uncover and understand the origins and deep reasons for credit risk problems especially for this category of traders. It is also imperative to promote a belief in a greater ‘internal locus of control’ to guide their ITCRM decisions.

### **9.3 LIMITATIONS AND FUTURE RESEARCH**

The purpose of this research has been to provide a thick contextualised description and explanation of the interplay between culture and ITCRM practices in China. The nature of qualitative research may raise issues concerning the generalisability of these findings, especially for those readers who give priority to a quantitative research paradigm and empirical studies which randomly draw on a sample of a larger population of interest and analyse the data based on probability theory (Firestone, 1993). Such readers may argue that the sample size and sampling technique used in this study (sequential, theoretical, and snowball sampling) cannot ensure the representativeness of the data and enable valid inferences to a larger population (Mason, 1996: 91; Silverman, 2011: 385). It may also be argued that the findings of this inductive qualitative research are limited to the geographic settings of the field work (Neuman, 2011) and thus may not be generalisable to other cultural contexts.

Nevertheless, the author has sought to make the qualitative findings generalisable by going beyond idiosyncratic descriptions based on only limited empirical evidence, and has sought to

provide explanations which have a “wider resonance” (Mason, 1996: 6). As elaborated in Chapter 5, several strategies to increase the generalisability of this qualitative research have been used. Those strategies include ensuring that rich data has been collected to generate deep meaning (Yin, 2003); using design research methods to assure validity and reliability (Patton, 2015; Falk & Guenther, 2014); and most significantly, developing theories drawn from qualitative data that go beyond the findings of this particular study (Maxwell, 1992; Yin, 2003).

It has emerged from the data that the Chinese native cultural values of *guanxi*, *mianzi*, *renqing*, and forbearance, and the emerging changes in individuals’ values hierarchies, are relevant to ITCR situations and ITCRM practices of Chinese suppliers. These changes were the central focus in developing the process model and theories regarding variances in cultural stances. However, individuals may adopt different cultural stances depending on the influence of dimensions such as *guanxi*, uncertainty avoidance and locus of control, and the domains of cultural factors under examination such as cultural values, practices and general beliefs. For example, as in the case of some bounded traders, although they adopt a reflecting stance in terms of Chinese native *guanxi*-related values, they may act counter to their previously cautious ITCRM practices with high uncertainty avoidance (opposing stance), yet still maintain a belief in an external locus of control (maintaining stance).

Future research efforts may investigate and assess whether there is a wider scope of applicability and transferability of these findings, for example, in other similar contexts, cultures or situations and to further refine these theories. Several fascinating topics also arise from this study that might be a focus for future theoretical exploration. For example, several Chinese native cultural traits such as ‘*baotuan*’ and ‘*genfeng*’ which have not been explored in extant studies, may be worthy of investigation in future studies because of their importance in the Chinese international business context. Furthermore, due to the importance of trust in credit decisions and other international business transactions revealed in this study, researching the interactions between trust and various cultural stances, the roles of bicultural or multi-cultural identities of trading partners in trust building and credit risk decisions, and changes in trust behaviours associated with changes in cultural values hierarchies are also worthy of exploration.

While this study investigates the change in cultural values and ITCRM practices at an individual level by using self-report interviews and other qualitative techniques, future studies could use more longitudinal methods by tracking values change over many years to further refine the process model. Moreover, it would be interesting to explore how cultural change happens in dissimilar cultures, and important to continue to clarify not only the different dimensions of cultural values change but also the ways in which they interact.

## **9.4 CONCLUDING REMARKS**

Almost four years ago, the author set out to answer this question: *In what ways do culture and international trade credit risk management of local SME suppliers interact with each other in China?* Her research motivations were not only academic but also altruistic. She was keenly aware of the dreadful impact that losses from incompetent credit risk management was having on local international trader/suppliers in China. Some traders had lost their life savings; some had lost all confidence and optimism. Financial disasters devastate families, not only individuals, so the author was deeply puzzled about why so many traders who were shrewd in other ways, were apparently naïve when it came to the granting of credit to purchasers.

An unexpected personal benefit of conducting this research has been to discover that things are changing for the better. Whereas the author expected to find the underlying reasons why many traders were making such inappropriate credit decisions, and bring those reasons to the light of day so they can be understood and addressed; she also found that many traders have learnt from their experiences and rather than needing expert help and advice, they are quickly developing their own expertise. They have shown this researcher how determined they are to make changes and find ways to not only survive but also to thrive. The author will be eternally grateful to them for allowing her not only into their business practices but also into their thought practices: by doing so, they have elevated the faith in the resilient capacities of the fellow humans.

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## APPENDICES

### Appendix A: Chinese Cultural Values according to Hofstede et al. (1980, 1991, 2010)

<i>Cultural Dimension</i>	<i>Score</i>	<i>Rank (out of 78 countries and regions)</i>
Power Distance	80 (High)	14
Individualism versus Collectivism	20 (Low)	62
Masculinity versus Femininity	66 (Medium-High)	13
Uncertainty Avoidance	30 (Very Low)	72
<b>Long-Term versus short Orientation</b>	87 (Very High)	4 (out of 96 countries and regions)
<b>Indulgence versus Restraint</b>	24 (Low)	78 (out of 96 countries and regions)

*Source: Above scores and ranks are drawn from Hofstede, Hofstede and Minkov (2010)*

**Appendix B Chinese Cultural Values**  
**according to Trompenaars and Hampden-Turner (2012)**

<i><b>Cultural Dimension</b></i>	<i><b>Score (% of respondents)</b></i>	<i><b>Rank (out of x countries )</b></i>
Universalism vs. Particularism	47 (Low)	27 (out of 31 countries )
Individualism vs. Communitarianism	41(Low)	33 (out of 40 countries )
Neutral vs. Affective	55 (High)	7 (out of 49 countries )
Specific vs. Diffuse	32 (Very Low)	52 (out of 52 countries )
Achievement vs. Ascription	28 (Medium Low)(almost balanced)	30 (out of 47 countries)
Attitudes with Regard to Time (Long vs. Short Term)	5.07 (High)	12 (out of 42 countries)
Attitudes with Regard to the Environment (Control vs. Subjugated)	39 (Very Low)	47(out of 48 countries)

*Source: Above scores and ranks are drawn from Trompenaars and Hampden-Turner (2012)*

**Appendix C: Chinese Cultural Values and Practices**  
**according to House et al. (2004)**

Cultural Dimensions	<i>Societal Culture Practice (As Is)</i>		<i>Societal Culture Value (Should Be)</i>	
	Scores	Ranks (out of 61 societies )	Scores	Ranks (out of 61 societies )
Performance orientation (Higher scores indicate greater performance orientation)	4.45 (High)	13	5.67 (Medium-Low)	50
Future orientation(Higher scores indicate greater future orientation)	3.75 (Medium-Low)	36	4.73 (Very Low)	60
Gender egalitarianism (Lower scores indicate greater male domination).	3.05(Medium-Low)	48	3.68 (Very Low)	58
Assertiveness (Higher scores indicate greater assertiveness).	3.76 (Medium-Low)	51	5.44 (Very High)	2
Institutional Collectivism (Higher scores indicate greater collectivism)	4.77 (High)	7	4.56 (Medium)	36
In-group collectivism	5.80 (High)	9	5.09 (Very Low)	59
Power distance (Higher scores indicate greater power distance).	5.04 (Medium-Low)	41	3.10 (High-Medium)	12
Humane orientation (Higher scores indicate greater humane orientation.)	4.36 (Medium-High)	17	5.32 (Medium-Low)	40
Uncertainty avoidance (Higher scores indicate greater uncertainty avoidance).	4.94 (High)	10	5.28 (High)	9

*Source: Above scores and ranks are drawn from House et al. (2004)*

## **Appendix D: Focus Group Interview Guide**

### Open-ended Question Guides:

1. Could you please describe the whole process of international trade credit risk management in your company, e.g. credit risk assessment, credit granting decisions, credit risk monitoring and payment collection etc.?
2. Do you (or does your company) have any experience regarding the management of credit risk in international trade, if so, can you please explain the approach that you take?
3. How and in what ways do you think Chinese culture (e.g. guanxi, harmony, face, reciprocity, hierarchy etc.) influences your (or your company's) approach to managing credit risk?
4. When doing business with customers from other cultures, in what ways do you think cultural differences may influence you or your company's ITCRM procedures (e.g. credit assessment, credit granting decisions, credit risk monitoring and payment collection procedures)? Could you give more details?
5. When dealing with customers from non-Chinese cultures/countries, what impact, if any, does that situation have upon your ITCRM practices (e.g. credit risk assessment, credit granting decisions, credit risk monitoring and payment collection)?
6. In what ways do cultural differences and cultural similarities between you and your foreign trading partners influence your credit risk management in international trade?
7. Have you (or your company) changed the practices of credit risk management in international trade before?
  - a) If so, how are previous and current ones different?
  - b) What are the reasons for these changes?
  - c) How did the change happen? Has it been effective or ineffective, and why?
8. Has Chinese culture changed from your points of view? If so, how is it different? What is the impact of culture change on international trade credit risk management?
9. Are there any changes of your (or your company's) values and practices arising from credit risk or credit risk management in international trade? What are they?
10. What kinds of strategies do you think could improve the beliefs and practices of you (or your company) in international trade credit risk management?
11. Are there any other aspects you want to mention or clarify about the links between Chinese culture and international trade credit risk management?

## **Appendix E: Semi-structured Interview Questions**

### ***Interview Guide for Key Executives, Financial Managers and Export Staff Working in Chinese Small and Medium Enterprises***

#### **Open-ended Interview Questions:**

1. General Information about the interviewees and their companies (i.e. Chinese export small and medium enterprises):
  - a) Could you please give some brief information about yourself, e.g. education and professional background, position and job responsibility in your company?
  - b) Could you please give a brief introduction of your company, e.g. type of export products, main export markets, annual turnover and set up time?
2. The Process of International Trade Credit Risk Management:
  - a) How do you (or how does your company) assess foreign customers' credit risk? What are the important factors considered by you (or your company) in assessing credit risk?
  - b) How do you (or how does your company) make decisions in terms of credit granting and terms of payment? Which factors do you consider when making credit granting decisions in international trade?
  - c) How do you (or how does your company) monitor international trade credit risk? What are the precautionary and protection strategies of your company to deal with credit risk?
  - d) How do you (or how does your company) collect payment? If your customer delays or defaults on the payment, what would you do?
3. Cultural Factors and International Trade Credit Risk Management:
  - a) Do you (or does your company) have any experience regarding management of credit risk in international trade, if so, can you please explain the approach that you take?
  - b) What are the reasons for the high level of credit risk in Chinese international trade, either external or internal reasons, what about Chinese cultural reasons (e.g. guanxi, harmony, face, reciprocity, hierarchy, etc.)?
  - c) How and in what ways do you think Chinese culture influences your (or your company's) approach to managing credit risk?
4. Cultural Differences and International Trade Credit Risk Management:
  - a) When doing business with customers from other cultures, in what ways do you think cultural differences may influence you or your company's credit assessment, credit granting decisions, credit risk monitoring and payment collection procedures? Could you give more details?

- b) When dealing with customers from non-Chinese cultures/countries, what impact, if any, does that situation have upon your credit risk assessment, credit granting decisions, credit risk monitoring and payment collection?
  - c) In what ways do cultural differences and cultural similarities between you and your foreign trading partners influence your credit risk management in international trade?
5. Cultural Adaptation and International Trade Credit Risk Management Improvement Strategies:
- a) Do you think your or your companies' practices of international trade credit risk management have changed over time? What about other Chinese small and medium enterprises?
    - a. If so, how are previous and current ones different?
    - b. What are the reasons for these changes?
    - c. How did any change happen? Has it been effective or ineffective, and why?
  - b) Has Chinese culture (e.g. values, beliefs, attitudes, customs, etc.) changed from your point of view? If so, how is it different? What is the impact of any cultural change on international trade credit risk management?
  - d) Are there any changes of culture or your values and practices arising from credit risk situations or credit risk management in international trade? What are they?
  - e) What kind of strategies do you think could improve the beliefs and practices of you (or your company) in international trade credit risk management?
6. Final questions:
- a) Is there anything that I haven't asked but you had hoped I would ask?
  - b) Is there anything you want to clarify in more detail?
  - c) Are there any questions that you would like to return to?



## **Appendix F: Interview Guide for Foreign Buyers outside Chinese SMEs**

### Open-ended Interview Questions:

1. General Information about the import companies and the interviewees:
  - a) Could you please give a brief introduction of your company, e.g. the country origin, the type of import products, main import markets, annual turnover and set up time?
  - b) Could you please give brief information about yourself, e.g. your country of origin, education and professional background, position and job responsibility in the company?
2. The Process of International Trade Credit Risk Management:
  - a) How do your Chinese suppliers engage in credit risk management such as credit risk assessment? What are the important factors considered by them in assessing credit risk?
  - b) How do they make decisions in terms of credit granting and terms of payment?
  - c) How do they monitor their credit risk and collect payment?
3. Culture Factors and International Trade Credit Risk Management
  - a) What are the reasons for the high level of credit risk in Chinese international trade, either external or internal reasons, what about Chinese cultural reasons (e.g. guanxi, harmony, face, reciprocity, hierarchy, etc.)?
  - b) How and in what ways do you think Chinese culture influences Chinese small and medium enterprises' approach to managing credit risk in international trade?
4. Cultural Differences and International Trade Credit Risk Management:
  - a) When doing business with customers from different cultures, in what ways do you think cultural differences may influence the credit assessment, credit granting decisions, credit risk monitoring and payment collection procedures of Chinese small and medium enterprises in international trade? Could you give more details?
  - b) When dealing with customers from non-Chinese cultures/countries, what impact, if any, does that situation have upon the credit risk assessment, credit granting decisions, credit risk monitoring and payment collection of the Chinese small and medium enterprises?
  - c) In what ways do cultural differences and cultural similarities between you and your Chinese suppliers influence credit risk management?
5. Cultural Adaptation and International Trade Credit Risk Management Improvement Strategies:
  - a) Have your Chinese suppliers changed their beliefs and practices of credit risk management? If so, how are previous and current ones different? What are the reasons for these changes?

- b) Has Chinese culture (e.g. values, beliefs, attitudes, customs, etc.) changed from your point of view? If so, how is it different? What is the impact of any culture change on international trade credit risk management?
  - c) Are there any cultural changes arising from credit risk or credit risk management in international trade? What are they?
  - d) What kind of strategies could Chinese suppliers possibly adopt to improve their practices of international trade credit risk management?
6. Final questions:
- a) Is there anything that I haven't asked but you had hoped I would ask?
  - b) Is there anything you want to clarify in more details?
  - c) Are there any questions that you would like to return to?

## Appendix G: Ethics Approval Notice



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### Notice of Approval

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Project number: 1000441

Project title: *Culture and International Trade Credit Risk Management: An Ethnographic Exploration of Chinese SMEs*

Risk classification: Low Risk

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### Terms of approval:

- Responsibilities of the principal investigator**  
It is the responsibility of the principal investigator to ensure that all other investigators and staff on a project are aware of the terms of approval and to ensure that the project is conducted as approved by BCHEAN. Approval is only valid while the investigator holds a position at RMIT University.
- Amendments**  
Approval must be sought from BCHEAN to amend any aspect of a project including approved documents. To apply for an amendment submit a request for amendment form to the BCHEAN secretary. This form is available on the Human Research Ethics Committee (HREC) website. Amendments must not be implemented without first gaining approval from BCHEAN.
- Adverse events**  
You should notify BCHEAN immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
- Participant Information and Consent Form (PICF)**  
The PICF must be distributed to all research participants, where relevant, and the consent form is to be retained and stored by the investigator. The PICF must contain the RMIT University logo and a complaints clause including the above project number.
- Annual reports**  
Continued approval of this project is dependent on the submission of an annual report.
- Final report**  
A final report must be provided at the conclusion of the project. BCHEAN must be notified if the project is discontinued before the expected date of completion.
- Monitoring**  
Projects may be subject to an audit or any other form of monitoring by BCHEAN at any time.
- Retention and storage of data**  
The investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.

## Appendix H: Values Change and Six Cultural Stances

<i>Cultural Stances</i>	<i>Maintaining</i>	<i>Reflecting</i>	<i>Eroding</i>	<i>Opposing</i>	<i>Minimising</i>	<i>Switching</i>
<i>Value Change</i>						
Values Change	4	27	24	64	5	3
~Change from Low to High Uncertainty Avoidance	1	14	6	18	3	2
~Change from Flexibility to Stringency	1	3	3	13	1	0
~Change from relationship to result-oriented	2	7	11	21	1	1
~Change from forbearance to persistence	0	3	4	12	0	0

## Appendix I: Intra-individual Cultural Values Change and ITCRM categories

<i>ITCRM Categories</i>	<i>Conventional traders</i>	<i>Bounded traders</i>	<i>Stereotypical Traders</i>	<i>Pragmatic traders</i>	<i>Conservative traders</i>	<i>Rational traders</i>
<i>Cultural Values Change</i>						
Values Change	1	3	19	32	20	52
~Change from Low to High Uncertainty Avoidance	0	0	8	14	4	18
~Change from Flexibility to Stringency	0	0	2	3	5	11
~Change from relationship to result-oriented	1	3	6	10	8	15
~Change from forbearance to persistence	0	0	3	5	3	8

## Appendix J: Cultural Meta-Cognition of Different ITCRM Categories and Cultural Stances

		Perceived cultural differences (Awareness of other's culture)	Meta-cognition (Self-awareness)
<b>ITCRM categories</b>	Conventional traders	6	1
	Stereotypical traders	9	5
	Bounded traders	11	29
	Conservative Traders	14	13
	Rational traders	29	43
	Pragmatic traders	54	35
<b>Cultural Stances</b>	Maintaining	8	3
	Reflecting	15	33
	Eroding	34	14
	Opposing	35	71
	Minimizing	12	4
	Switching	19	1

## Appendix K: Definitions of Ten Steps of SMEs' International Trade Credit Risk Management

<b><i>ITCRM Steps</i></b>	<b><i>Definitions of ITCRM Steps</i></b>	<b><i>Data Sample</i></b>
<b><i>CRM Orientation</i></b>	This refers to the general credit orientation of the company or the informants. It incorporates three aspects: 1) the company or informants' risk preferences, and general attitudes and orientation towards credit risks and credit risk management (as distinct from credit risk perception and awareness which means whether the informants understand credit risk and are aware of the existence of credit risk); 2) the informants' or company's strategic credit orientation and business objectives, e.g. whether the informant prefers rapid expansion with high risks and high returns, or prefers security with lower risks and lower returns; 3) the company's trade credit policy and procedures, e.g. whether the company has written formal credit policies distributing to employees.	<i>The company encourages any contact with new customers, and can grant about \$50,000 credit to them; therefore, to gradually develop a number of new customers, and let them develop. We hope that the company can provide a business platform...With an emphasis on cooperative relationships, the company provides a collaborative platform for employees and customers. It is stressed that there is a cooperative partnership among the company, the employees and our customers. This partnership is very important. (Interview with P.01)</i>
<b><i>CR Communication &amp; Information Sharing</i></b>	This refers to the communication and distribution of credit risk information among exporters or between exporters and governments e.g. through word of mouth, or electronic risk alert websites operated by local governments. The communication and sharing of credit risk information could help exporters increase CR awareness, or have better CR judgement, assessment and monitoring.	<i>Large companies generally have more channels to obtain information, such as through training and professional seminars from commercial banks (e.g. Bank of China) and export credit insurance companies, which more or less let the suppliers know something about trade credit risk over time. However, SMEs are more likely to lack access to information, lack channels to obtain the information, and lack the appropriate personnel and professionals. (Interview with P.04)</i>
<b><i>CR Perception &amp; Awareness</i></b>	This refers to whether exporters have some understanding of credit risk, and are able to perceive and be aware of the existence of credit risk, either through personal CR experience or obtaining CR information from other sources (e.g. other exporters, export credit insurance companies, etc.)	<i>The experience and maturity of the supplier is very important, and whether the supplier has some self-awareness of risk is also important...So in general, it all depends on the suppliers' own risk perception and understanding. If the risk awareness of the suppliers has increased, usually the problem would be solved. But if you don't have enough understanding and awareness of the risk, you would not know the trouble involved in the business. (Interview with S.1)</i>
<b><i>CR Assessment*</i></b>	This incorporates three aspects: credit risk identification, analysis, and evaluation. More specifically, before the formal transaction (or contract signing or shipment), exporters	<i>We mainly judge the credit risk of buyers based on objective information, such as the buyer's company size, the country, trade volume, the company's financial information,</i>

	engage in investigation of the clients' background (e.g. review clients' credit standing and financial status), identify potential credit risks, analyse and evaluate credit limit and credit terms. CR assessment of SMEs includes subjective judgement or objective formal assessment, and credit risk indicators vary among different SMEs, such as buyers' competency to pay, business authenticity, buyers' integrity and character, intermediary's introduction or guarantee, etc.	<i>import and export amount, inventory and so on. Sometimes, we undertake some financial analysis and comparison. (Interview with P.06)</i>
<b><i>Credit Granting Decisions*</i></b>	Credit granting decisions include credit terms decisions (e.g. forms of credit, payment deadline, and credit amount), payment methods decisions (e.g. choice of percentage of prepayment or deposit, letter of credit, documents against payment, documents against acceptance, etc.), credit privileges decisions etc. A list of international trade payment methods used by Chinese exporters, as reported by the informants has been summarised in Appendix L. In addition, a full list of factors affecting credit granting decisions has been summarised in Appendix M. The lists are drawn from the coding lists from NVivo through data analysis.	<i>We rarely use formal terms of payment for international trade, we mainly use open account and direct transfer through banks. Almost all of the transactions here are based on open account; that is, we make the shipment and delivery, and then the foreign buyers make payment to us. Sometimes one week after, but normally around one month, even three months. (Focus group F3.1)</i>
<b><i>CR Control &amp; Transfer *</i></b>	This step is tightly linked with CR assessment and credit granting decisions. During or after credit granting decisions, exporters check availability, suitability and applicability of financial instruments (e.g. export credit insurance, international factoring, forfeiting) or non-financial CR control and transfer techniques (e.g. guarantees from other suppliers or a third party other than financial institutions) and apply them in order to minimise credit risk exposure and circumvent any losses potentially incurred.	<i>When we use the T/T after delivery (i.e. open account, in addition to insurance coverage by export credit insurance company, we also adopt international factoring. For example, credit investigation can be carried out by the Bank of China, and so can payment collection and recourse. (Interview with P.04)</i>
<b><i>CR Monitoring*</i></b>	This includes account receivables monitoring and management, documentation management, and clients' behaviour and information tracking, and other CR monitoring functions (e.g. shipping notification, cargo arrival verification, and payment checking). CR monitoring also includes whether the company has CR monitoring departments, committees, positions, personnel, or software for CR monitoring after cargo shipping until the due date of payment.	<i>We don't have a specialised credit risk management department, but it is just dispersed through the financial department, as well as the sales and marketing department by the supplier procurement system. On the 1st and 16th of each month, we review all orders. If there are overdue receivables that have not been recovered, or the payment deadline is approaching, the computer system will highlight this item in grey, and remind us to pay attention to this transaction. (Focus group F5.1)</i>
<b><i>Payment Collection*</i></b>	This refers to any measures exporters take to collect payment (e.g. sending reminders, keeping default evidence, selecting payment collection methods, analysing arrears signs,	<i>It's better to keep all the evidence during payment collection. If a default occurs, we normally keep contacting and calling buyers. Sometimes, they make various kinds of</i>



	maintaining collection pressure on clients), in cases where payment is due and clients do not make the payment within the prescribed time.	<i>excuses, such as the boss was away, or just didn't answer the phone, then simply disappeared. (Focus group F2.1)</i>
<b>CR Remedy</b>	This refers to any measures exporters take to minimise bad debt losses, and actions taken against defaulters after confirming clients' default the payment and the account receivables become bad debts. For instance, crisis management, making a claim against relevant parties, dispute settlement through litigation or arbitration, ceasing or suspending credit granting to related clients, handing over the debt to export credit insurance companies for collection etc.	<i>Once a claim against the buyer has been lodged through a credit insurance company, we would stop granting credit to this buyer. In case that the payment was overdue and passed the deadline, our company would cease all business with this particular foreign buyer. The insurance company would also put the buyer on a blacklist. (Interview with P.01)</i>
<b>CRM Review &amp; Continual Improvement</b>	This refers to any measures taken by exporters after the occurrence of credit risk and bad debt to review and change the company's credit risk management for continual improvement e.g. employee training for CR, increase internal control and conscientiousness etc.	<i>It's better to use formal policies to regulate the behaviours and practices of sales staff and financial staff in the company. For upper management, we need to develop strict rules...Internal controllability of the company is essential, credit risk management is very important, and self-discipline is also important. (Interview with P.14)</i>

Note: 1) Steps with the asterisk (\*) sign are consistent with CRM processes generated in prior studies (Ng, Smith & Smith 1999; Summers & Wilson 2000; Lam 2003; Xie 2003; Bullivant 2010), while steps without the asterisk (\*) sign are not covered in the extant literature. SMEs in China adopt distinct measures at each step, which are discussed in this chapter.

2) The above definitions are retrieved from the 'Description' of Node Properties from the NVivo software, with a reference to above extant literature.

## Appendix L: Terms of Payment Used By Chinese Exporters (Grouped in Order of Advantages to the Suppliers)

Terms of payment	Type of credit risks	Credit Risk Level to Local Suppliers	Relationship with delivery
Advance payment <ul style="list-style-type: none"><li>• Full payment with order</li><li>• Partial payment with order, and the balance due upon delivery**</li><li>• Full payment before delivery</li><li>• Full payment before delivery</li><li>• (Against contractual advance payment guarantee)</li></ul>	Risk for the buyer	Least risk to Local Suppliers	Payment before delivery (payment before shipment)
Red clause letter of credit	Risk for the bank		
Confirmed letter of credit			
Letter of credit, documents against payment (at presentation/ at sight)**			
Letter of credit, Deferred payment			
Letter of credit, documents against acceptance			
Standby letter of credit	Risk for both the buyer and bank	Medium risk to Local Suppliers	Payment after delivery
(Partial/Full) Payment against documents (Bank transfer, e.g. telegraphic transfer)**	Risk for the buyer		
Documentary collection--Document against payment *			
Payment secured by payment guarantee (of banks)	Risk for both the buyer and bank		
Payment secured by other financial instruments (e.g. credit insurance, factoring, forfaiting)**	Risk for both the buyer and the financial institutions	Highest risk to Local Suppliers	Payment after delivery
Payment secured by payment guarantee (of businesses other than buyers)*	Risk for both the buyer and a third-party		
Document collection--Document against acceptance *	Risk for the buyer		
Open account (open credit)**			
(Partial/Full) Payment after inspection*	Risk for the buyer and the quality inspection results		
Consignment sales	Risk on the buyer and the sales of products		

Notes: (1) The credit risk level to the local supplier is also associated with (a) other terms of payment, such as time (e.g. open account with net 30 or net 90 days) and place; (b) the different combinations and composition of terms of payments, such as a combination of advance payment with the balance on open account; (c) additional conditions of the payment method, such as the types of documents required in a letter of credit; (d) trade terms, e.g. Free on Board (FOB) or Cost, Insurance and Freight (CIF); (e) transport methods (e.g. by air or sea); (f) the availability of other payment reimbursement financial instruments (e.g. export credit insurance, export factoring, forfeiting etc.).

(2) The asterisk symbol (\*) indicates the popularity of the payment method used by informants, as reported in the interviews.

\*\*indicates greater popularity, \*indicates less popularity. Where there is no asterisk, this means the payment method is not mentioned by any of the informants.

## Appendix M: Factors Affecting Credit Granting Decisions (Including Cultural Factors)

First Order Code	Second Order Code	Third Order Code	Fourth Order Code
Contextual Factors	Societal Credit Environment	Societal trust level	
		Credit Institutions and Systems	<ul style="list-style-type: none"> <li>• Credit organisations (e.g. the availability of export credit insurance companies)</li> <li>• Credit checking systems and inter-connected networks</li> </ul>
		Credit Practices and Customs	<ul style="list-style-type: none"> <li>• Credit-related customs</li> <li>• Credit-related business practices</li> </ul>
	Macro-economic factors	International Market Demand	
		Supply competition intensity	
		Global economic and financial events	2008 Global financial crisis
Industrial Factors	Payment practices in this industry		
	Competitors' credit granting policies and practices		
Organisational CRM Factors	CRM Orientation	CRM-related Corporate Cultural Values	<ul style="list-style-type: none"> <li>• Leadership CRM Values</li> <li>• Risk-taking abilities</li> </ul>
		Corporate Strategic Orientation	<ul style="list-style-type: none"> <li>• Company life cycle</li> <li>• Marketing Positioning (Higher vs. Lower end; Marketing to developed/developing/least developed countries)</li> <li>• Quick Expansion vs. Stability</li> </ul>
		Corporate Credit policies	<ul style="list-style-type: none"> <li>• Trade credit as a marketing strategy (e.g. to provide quality assurance, finance for buyers, support for distributors' growth, to increase buyers' loyalty, or as competitive strategy)</li> <li>• Credit granting standards and bottom-line</li> <li>• Organisational policies for terms of payment</li> <li>• Attitudes toward financial &amp; credit instruments (e.g. trustworthiness of Sinasure)</li> </ul>
	Business Competency	Financial competency	Financing capability
		Product competitiveness	Price competitiveness
			Quality competitiveness and assurance
			Feature differentiation (e.g. high-tech)
		International business negotiation ability	Bargaining ability Bargaining power
		Transaction competency	Familiarity with international trade practices, regulations and laws
	CR Perception & Awareness	CR perception abilities	
		Previous CR experience	
		CR awareness from other sources	CR awareness of each type of payment method
	CR Assessment	CR assessment indicators	Buyers' capacity to pay
			Buyers' characteristics (e.g. company size, history, reputation, competitive strength, market share, type of proprietorship: government procurement or private enterprises or public listed etc.)
			Previous Credit and payment records with the supplier
			Credit records from formal institutions or other suppliers
			Buyers' Management capabilities

				(e.g. toilet cleanness, management style, intra-organisational conflict, operation smoothness.)	
				Financial ability (e.g. liquidity, cash flow, turnover etc.)	
				Reasons for payment methods change	
				availability of collateral (collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan)	
				Product marketability (e.g. quality, demand; the likelihood that something will sell)	
				Product end users	
				Product profit	
			Buyers' business authenticity	Buyers' business proficiency	
				Negotiation and requirements for price, quality, quantity	
			Buyers' integrity	Length/type of business relations	
				Religion and culture	
				Position	
				Age	
				Cultural ethnicity	
				Punctuality	
				Subjectively/intuitively judged character	
			Country risk evaluation	Intermediary-based introduction	
				Economy of Buyers' country	
				Credit Culture of Buyers' country	
				Credit system of Buyers' country	
				Credit level of Buyers' country	
			CR assessment methods	<ul style="list-style-type: none"><li>•Through professional financial institutions (e.g. credit insurance companies, commercial banks [factoring]).</li><li>• Through intermediaries (e.g. trade agents, friends, other suppliers, other overseas buyers)</li><li>• Field investigation (=An investigation carried out in the field; usually applied to an investigation made by someone not domiciled at the site.)</li><li>• Web-based investigation (e.g. buyers' company websites, risk e-alerts platform etc.)</li><li>• Intuitive Judgement (e.g. physiognomy=the assessment of a person's character or personality from his or her outer appearance, especially the face)</li><li>• Through the negotiation and bargaining process of trading terms and conditions</li><li>• Through trial sales</li><li>• Through early stages of the transaction (e.g. the promptness of advance/down payment)</li><li>• Through information provided by the buyers themselves</li><li>• Through industry associations</li><li>• Through cost-benefit calculation</li><li>• Mixed methods (combinations of different methods)</li></ul>	
		CR Control & Transfer Ability		Availability and Applicability of financial & credit instruments	<ul style="list-style-type: none"><li>• Affordability of financial instruments (e.g. credit insurance, factoring)</li><li>• Familiarity with financial and credit instruments</li><li>• Availability of financial instruments</li><li>• Applicability of financial instruments in a specific transaction</li></ul>

			<ul style="list-style-type: none"> <li>• Availability of a third-party payment guarantee</li> </ul>
		Non-financial CR control & transfer ability	<ul style="list-style-type: none"> <li>• Existence of branch offices in importing countries</li> <li>• Existence of acquaintance in importing countries</li> <li>• Availability of other CR remedy measures (e.g. other distributors)</li> <li>• language &amp; other legal recourse barriers</li> </ul>
Transactional Specific factors	Trading partners' factors	Buyers' payment & credit policies	
		Requirements and acceptance of payment terms by buyers	
		Buyers' trust level with suppliers	<ul style="list-style-type: none"> <li>• Cognitive trust (e.g. based on suppliers' quality guarantee, previous contractual fulfilment, mutual familiarity etc.)</li> <li>• Affective trust (e.g. length of relationship)</li> </ul>
		Mutual cooperation ability	
		Length of relationship	<ul style="list-style-type: none"> <li>• ganqing, in order to maintain guanxi</li> </ul>
	Transaction Characteristics (may be included in the CR indicators)	Related-Party Transaction (a business deal or arrangement between two parties who are joined by a special relationship prior to the deal)	The transaction between headquarters and subsidiary companies.
		Product specification requirements	Customised or standardised
		Transaction volume	
		Transportation Mode	By air, sea, rail, or road
		Trade Terms	e.g. FOB or CIF
		Types of transport documents	e.g. Airway bill or marine bill of lading
		Types of shipment	Partial shipment, transshipment
Cultural factors	Suppliers' cultural stances	<ul style="list-style-type: none"> <li>• Maintaining</li> <li>• Reflecting</li> <li>• Eroding</li> <li>• Opposing</li> <li>• Minimising</li> <li>• Switching</li> </ul>	
	Suppliers' ITCRM categories	<ul style="list-style-type: none"> <li>• Conventional</li> <li>• Stereotypical</li> <li>• bounded</li> <li>• Conservative</li> <li>• Rational</li> <li>• Pragmatic</li> </ul>	
	Suppliers' values priorities	<ul style="list-style-type: none"> <li>• Guanxi, ganqing, renqing, mianzi, yiqi</li> <li>• Particularism</li> <li>• Harmony</li> <li>• Forbearance</li> <li>• Flexibility</li> <li>• Norm of reciprocity</li> <li>• Baotuan</li> <li>• Long-term vs. short-term orientation</li> <li>• Locus of control</li> <li>• Preciseness</li> <li>• Disregard of Contracts</li> <li>• Uncertainty avoidance</li> <li>• Orientation Towards Time Horizon</li> </ul>	
	Attitudes towards cultural ethnicities	<ul style="list-style-type: none"> <li>• In-group negativity</li> <li>• Out-group negativity</li> <li>• In-group positivity</li> <li>• Out-group positivity</li> <li>• Multi-cultural identity</li> <li>• Neutral</li> </ul>	

